Q1

DUNDEE REIT TWO THOUSAND SIX FIRST QUARTER REPORT

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LETTER TO UNITHOLDERS

WE ARE PLEASED TO REPORT STRONG FINANCIAL RESULTS FOR THE FIRST QUARTER, INCLUDING 6% GROWTH IN COMPARATIVE PROPERTY NET OPERATING INCOME AND 30% GROWTH OVERALL. DURING THE QUARTER WE ACQUIRED $31.4 MILLION OF ASSETS, BRINGING TOTAL ASSETS ACQUIRED SINCE JULY 2003 TO ABOUT $760 MILLION.

With the growth in and the resulting evolution of our portfolio over the past three years, our office portfolio now generates 70% of total net operating income. Subsequent to quarter-end we have completed or have secured under contract another $232 million of acquisitions, the majority of which represents office assets. What has become apparent to the marketplace is that Dundee REIT has emerged as the only national office REIT in Canada.

Additional revenue generated by acquisitions as well as higher occupancy rates across our portfolio fuelled growth in total net operating income ("NOI"), which was $35.1 million in the first quarter, up 30% or $8.1 million from Q1 2005. NOI from comparative properties is up by an impressive 6% to $26.1 million largely reflecting increased occupancy in the Ontario and Alberta office portfolios and the Alberta industrial portfolio. Funds from operations ("FFO") grew by 26% to $19.3 million largely as a result of acquisitions, as well as improved occupancy rates and a reduction in the weighted average interest rate on our debt. On a per unit basis, FFO in the first quarter grew 8% to $0.67.

We have spent a great deal of our time realigning our portfolio over the past few years. As a result of our efforts, we have virtually eliminated the retail component of our portfolio while at the same time increasing our total portfolio by over 50%. We have now completed the transition from the choppy earnings that resulted from selling high-yielding but weak assets, to the more predictable earnings that have resulted from acquiring the high-quality and dependable assets that now round out our portfolio. What has emerged is a strong national portfolio with a significant concentration in office product, particularly in Central and Western Canada.

During the quarter we also reassessed how certain properties were classified within our industrial portfolio. Initially properties such as those acquired from the Pauls Properties Corporation and other such flex-space properties were classified as industrial assets because they are single-story suburban buildings, they look somewhat like industrial buildings, and also because, at the time, that type of space was innovative and not generally accepted as office. In fact, these properties are fully air conditioned and built out as office space, or in some cases laboratory or research and development space, with little or no typical industrial uses. Given the rental rates attracted by these properties as well as their use and function, we determined that these properties are more appropriately classified as office and have therefore moved them into our office portfolio.

The positioning of our portfolio should not be viewed as an indication that we intend to exit the industrial sector. While we believe that the office sector currently holds the greatest potential for Dundee REIT, both in terms of capturing the upside on assets currently held as well as acquisition opportunities, our industrial assets produce consistent income with very little down side. We anticipate that the percentage of NOI generated by our office portfolio in future quarters will increase to about 75%, and possibly higher – a substantial validation of Dundee as an office REIT without necessitating the sale of any industrial assets.

In our 2005 annual report, I wrote that our share price performance in 2005 was disappointing and did not match our operating performance. It appears now that the marketplace is beginning to recognize the value of our assets and our financial performance. It also appears that any concern the investment community had regarding Dundee over-distributing its income is beginning to dissipate. Although interest rates have been increasing and the valuation of real estate investment trusts has been on the decline, our unit price has been on the rise. Between December 31, 2005 and the end of April, our unit price grew from $25.70 to $28.63, representing a 14% total return. This impressive result is in contrast to our 9% total return for all of 2005 and compared to the 3% year-to-date total return for all of the real estate investment trusts currently included in the index.

Two noteworthy events took place subsequent to quarter-end. First, we completed the equity offering announced during the quarter, raising total gross proceeds of $69.9 million. These funds are being used for acquisitions; however, our second quarter results will reflect some delay between the receipt of the funds and their full deployment in investments.

The second significant event is the internalization of the property management business. The complete internalization of the property manager is another step in increasing the attractiveness of Dundee REIT to the investment community. The acquisition will be accretive immediately and will become even more valuable as we continue to grow. Since becoming a REIT in 2003, we have held a 50% ownership stake in Dundee Management Limited Partnership, which provides property management and real estate advisory services to Dundee REIT. The purchase price for the outstanding interest is approximately $13.25 million and is to be paid through the issuance of LP B Units, Series 1 of Dundee Properties Limited Partnership.

The performance of Dundee REIT, both operationally and financially, is solid. Our portfolio has evolved such that we have become the only national office real estate investment trust. We continue to make accretive investments, including the internalization of the property manager; we are competitive; and, we are a compelling investment in the real estate investment trust market.

MICHAEL J. COOPER

Vice Chairman and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of our financial results and operations should be read in conjunction with the audited financial statements for the year ended December 31, 2005 and interim financial statements for the three months ended March 31, 2006. Certain information herein contains or incorporates comments that constitute forward-looking information within the meaning of applicable securities legislation. Forward-looking information is based on 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 on 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 May 2, 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.

All dollar amounts in our tables are presented in thousands with the exception of unit and per unit amounts. For simplicity, throughout this discussion we may use "Units" in reference to our REIT Units, Series A. Certain market information has been obtained from CB Richard Ellis Market View, 1st Quarter 2006, 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.

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 March 31, 2006, approximately 36% of our total units were enrolled in the DRIP or the equivalent plan for limited partnerships units, including 10% of REIT Units, Series A and 100% of LP Class B Units, Series 1 (please see a description of our equity on page 13).

	December	*January*	*February*	*March*
Distribution Rate	$ 0.183	$ 0.183	$ 0.183	$ 0.183
Month-end Closing Price	$ 25.70	$ 26.49	$ 27.77	$ 27.80

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
- Building and maintaining a diversified portfolio
- Meeting the needs of our tenants
- Pursuing external growth strategy

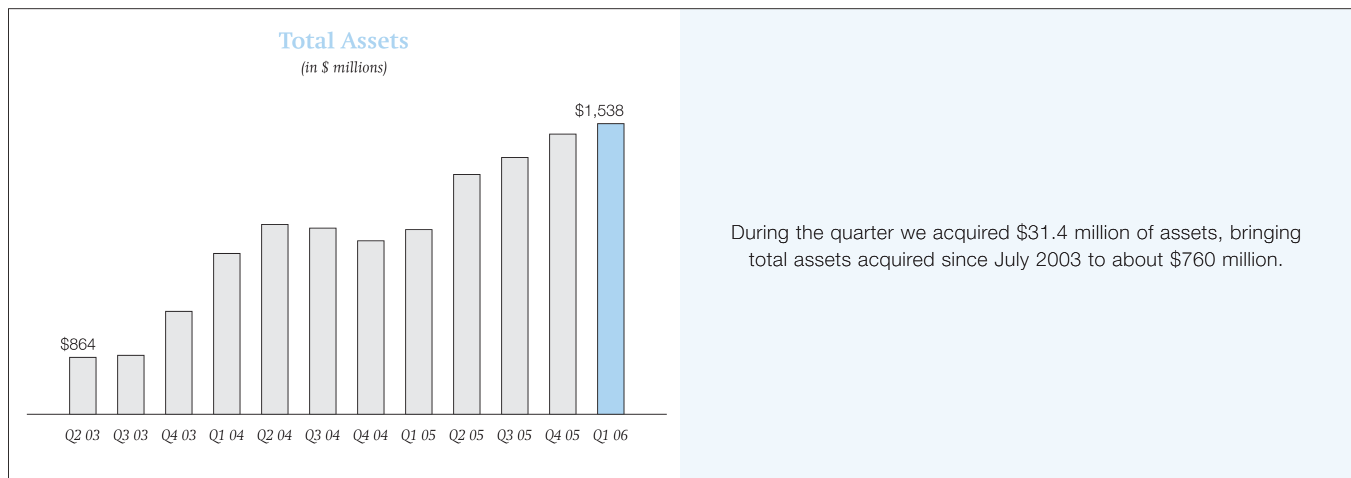
OUR ASSETS

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

During the quarter, we completed approximately $31.4 million of acquisitions, comprising 0.4 million square feet. Although the bulk of the properties acquired are in our key target markets – Montréal, Toronto and Edmonton – we completed accretive acquisitions in other markets that also complement our portfolio. Acquisitions in new markets included six buildings in Québec City, and one property in Rimouski, Québec. All of the acquisitions completed in 2006 are high-quality properties with occupancy rates above 99%.

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. In our 2005 annual report we reclassified our Ontario portfolio as two distinct markets – the Toronto Region and the National Capital Region ("NCR") – and reclassified our Western Canada portfolio into Alberta and Western Canada.

During the quarter, we reassessed how certain properties are categorized within our industrial portfolio. Through this exercise we identified 19 properties that actually possess the characteristics of office space with the exception that they are single-storey and physically resemble industrial properties upon first examination. In fact, these properties are fully air conditioned and built out as office space, or, in some cases, laboratory or research and development space, with little or no typical industrial uses such as warehousing or light manufacturing. These properties also attract rental rates that are higher than the typical industrial rental rates. Given their use and function, we determined that these properties are more appropriately categorized as office and have therefore reclassified them as office within our portfolio. Comparative figures have been restated to reflect this new classification.



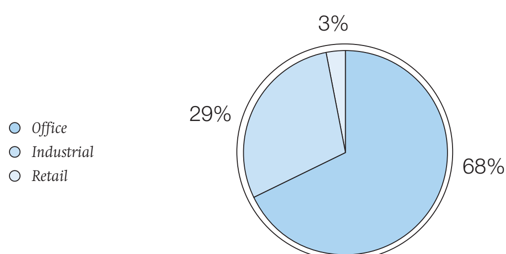
During the quarter we acquired $31.4 million of assets, bringing total assets acquired since July 2003 to about $760 million.

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

	March 31, 2006					December 31, 2005	
($000's)	*Office*	*Industrial*	*Retail*	*Total*	*%*	*Total*	*%*
Québec	**$ 173,371**	**$ 139,061**	**$ –**	**$ 312,432**	**23**	$ 295,955	22
National Capital Region	**231,420**	**–**	**–**	**231,420**	**17**	232,775	18
Toronto Region	**299,991**	**121,848**	**–**	**421,839**	**31**	416,996	31
Alberta	**159,289**	**123,670**	**4,777**	**287,736**	**22**	285,809	22
Western Canada	**58,064**	**–**	**–**	**58,064**	**4**	58,424	4
Total Canada	**922,135**	**384,579**	**4,777**	**1,311,491**	**97**	1,289,959	97
United States	**–**	**–**	**38,085**	**38,085**	**3**	38,436	3
Total at March 31, 2006	**$ 922,135**	**$ 384,579**	**$ 42,862**	**$ 1,349,576**	**100**	$ 1,328,395	100
Percentage	**68%**	**29%**	**3%**	**100%**		100%	
Total at December 31, 2005	$ 920,024	$ 365,128	$ 43,243	$ 1,328,395			
Percentage	69%	28%	3%	100%			

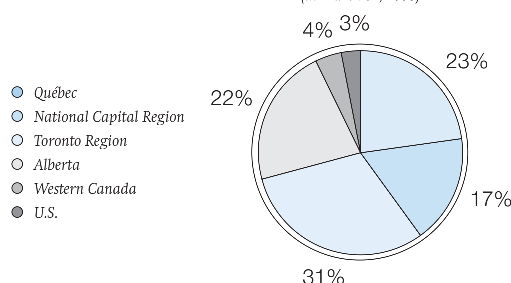
Portfolio Asset Type by Net Book Value

(at March 31, 2006)



Geographic Distribution of Rental Properties by Net Book Value

(at March 31, 2006)



	Owned Gross Leasable Area (square feet)						
	March 31, 2006					December 31, 2005	
($000's)	*Office* [1]	*Industrial*	*Retail*	*Total*	*%*	*Total*	*%*
Québec	**1,750,223**	**3,335,982**	**–**	**5,086,205**	**31**	4,822,052	30
National Capital Region	**1,600,439**	**–**	**–**	**1,600,439**	**10**	1,600,446	10
Toronto Region [2]	**2,726,979**	**2,238,115**	**–**	**4,965,094**	**30**	4,865,530	31
Alberta	**1,230,130**	**2,300,409**	**46,143**	**3,576,682**	**22**	3,527,907	22
Western Canada	**275,047**	**–**	**–**	**275,047**	**2**	275,047	2
Total Canada	**7,582,818**	**7,874,506**	**46,143**	**15,503,467**	**95**	15,090,982	95
United States	**–**	**–**	**795,390**	**795,390**	**5**	795,390	5
Total at March 31, 2006	**7,582,818**	**7,874,506**	**841,533**	**16,298,857**	**100**	15,886,372	100
Percentage	**47%**	**48%**	**5%**	**100%**			
Total at December 31, 2005	7,423,728	7,621,111	841,533	15,886,372			
Percentage	47%	48%	5%	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 90 office properties (109 buildings) comprising approximately 7.6 million square feet located in St. John's, Québec City, Montréal, Ottawa, Toronto, Calgary, Edmonton and Vancouver. Our office properties can generally be categorized as high-quality, yet affordable downtown and suburban buildings. Acquisitions completed in 2006 have added 0.2 million square feet of office properties to our portfolio. These properties 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 ninth consecutive quarter. The average occupancy rate in our office portfolio was 96.1%, a slight decline from 96.3% at December 31, 2005, however, still ahead of the national industry average of 91.9% (CB Richard Ellis, Canadian Office Market View, 1st Quarter 2006). 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 $13.47, compared with the national industry average asking Class A net rental rate of $16.55.

Industrial Rental Properties

We own 120 prime suburban industrial properties (137 buildings) comprising approximately 7.9 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 2006 have added 0.3 million square feet of fully occupied high-quality industrial properties to our portfolio.

At March 31, 2006, the average occupancy rate across our industrial portfolio was 95.2%, down slightly from 96.2% at December 31, 2005, however, ahead of the national industry average of 94.7% (CB Richard Ellis, Canadian Industrial Market View, 1st Quarter 2006). The average in-place net rental rate across our portfolio is $5.34, compared with the national industry average asking net rental rate of $5.39.

Retail Rental Properties

Our retail assets total approximately 0.8 million square feet. As of March 31, 2006, the portfolio had an occupancy rate of 94.8%, remaining unchanged since December 31, 2005. The 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.

NUMBERS THAT REPRESENT A GREAT DEAL

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:

($000's except rental rates, unit and per unit amounts)	*Three Months Ended March 31* 2006	2005
Operations		
Occupancy rate (period end)	**95.6%**	95.2%
In-place rent per square foot (office and industrial) [8]	**$ 9.35**	$ 9.05
Leasing costs	**2,539**	2,624
Net operating income as a % of rental property revenue	**55.5%**	53.5%
Investment		
Acquisition activity	**$ 31,366**	$ 51,431
Building improvements	**1,489**	1,008
Financing		
Weighted average interest rate (period end)	**6.11%**	6.51%
Interest coverage ratio [1]	**2.27 times**	2.27 times
Debt-to-gross book value	**59.2%**	56.4%
Average term to maturity (years)	**5.8**	5.0
Operating Results		
Rental properties revenue	**$ 63,238**	$ 50,354
Net operating income [2] ("NOI")	**35,074**	26,933
Funds from operations [3] ("FFO")	**19,282**	15,358
Distributions		
Distributable income [4]	**$ 17,980**	$ 13,684
Reinvestment to distribution ratio [5] [6]	**36%**	39%
Cash distribution ratio	**64%**	61%
Per unit amounts		
Basic:		
FFO	**$ 0.67**	$ 0.62
Distributable income	**0.62**	0.55
Distribution rate (quarterly)	**0.55**	0.55
Diluted: [7]		
FFO	**$ 0.63**	$ 0.60
Distributable income	**0.59**	0.54
Units outstanding (period end)		
REIT Units, Series A	**20,767,852**	16,855,254
LP Class B Units, Series 1	**8,337,365**	8,098,025
Total units outstanding	**29,105,217**	24,953,279

(1) Interest coverage is calculated using total interest expense as the denominator and the numerator is calculated as net income adding back income attributable to non-controlling interest, income taxes, dilution gain, gain 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 13.
(4) The reconciliation of distributable income to net income can be found on page 14.
(5) These percentages do not include the additional 4% distributions available under the DRIP.
(6) Includes April 15, 2006 reinvestment of distributions declared in March 2006.
(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

($000's)	Three Months Ended March 31 2006	2005
Cash generated from operating activities	**$ 15,230**	$ 10,558
Cash utilized in investing activities	**(24,466)**	(38,682)
Cash generated from financing activities	**15,154**	17,511
Increase (decrease) in cash and cash equivalents	**$ 5,918**	$ (10,613)

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 March 31, 2006, cash and cash equivalents were $22.4 million, an increase of $5.9 million compared to December 31, 2005. We have an $80.0 million revolving credit facility, of which approximately $79.6 million is available to provide further funding for working capital or as a bridge facility to fund acquisitions.

Cash Generated from Operating Activities

($000's)	Three Months Ended March 31 2006	2005
Net income	**$ 3,189**	$ 3,681
Non-cash items:		
Depreciation of rental properties	**8,570**	6,689
Amortization of deferred leasing costs and intangibles	**5,725**	3,778
Amortization of deferred financing costs	**433**	296
Amortization of marked-to-market adjustment on acquired debt	**(431)**	(350)
Gain on disposal of rental properties	**–**	(242)
Deferred unit compensation expense	**265**	175
Future income taxes	**174**	192
Amortization of market rent adjustments on acquired leases	**(156)**	(33)
Straight-line rent adjustment	**(839)**	(1,070)
Dilution gain	**–**	(673)
Non-controlling interest	**1,349**	1,451
	18,279	13,894
Deferred leasing costs incurred	**(2,539)**	(2,624)
Change in non-cash working capital	**(510)**	(712)
Cash generated from operating activities	**$ 15,230**	$ 10,558

Cash generated from operations during the three-month period increased 44% over the comparative period primarily due to the contribution from acquisitions. The change in non-cash working capital variance in the quarter is mainly a result of a decline in leasing costs payable.

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 March 31, 2006, the deferred amount remaining for recovery in future periods was $7.3 million (December 31, 2005 – $7.5 million).

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

Performance Indicators	March 31, 2006 [2]	December 31, 2005
Operating Activities		
Occupancy level [1]	**95.6%**	96.2%
Tenant maturity profile – average term to maturity (years)		
Office	**4.7**	4.8
Industrial	**4.4**	4.3
In-place rental rates (office and industrial average)	**$ 9.35**	$ 9.36
NOI as a percentage of rental property revenue	**55.5%**	53.5%

(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 year end, partially offset by new leasing activity. The industrial portfolio generally attracts tenants for shorter lease terms.

Our current average in-place office and industrial rental rates are approximately 13% 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.

Leasing

Occupancy levels and rental rates are discussed under our results of operations beginning on page 16. Leasing costs for the quarter decreased 4% to $2.5 million (March 31, 2005 – $2.6 million). The decrease in leasing costs reflects a decline in the industrial leasing activity as well as a reduction in the average industrial leasing cost. This decline was partially offset by increases in office leasing activity compared to the same period in 2005. 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.

Performance Indicators	Office [1]	Industrial	Retail	Total
Operating Activities				
Portfolio size (sq. ft.)	7,582,818	7,874,506	841,533	16,298,857
Occupied and committed	96.1%	95.2%	94.8%	95.6%
Square footage leased and occupied in 2006	156,958	332,993	13,398	503,349
Leasing costs ($000's)	$ 1,750	$ 709	$ 80	$ 2,539
Leasing costs (per sq. ft.)	$ 11.15	$ 2.13	$ 5.97	$ 5.04

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

Our estimates of expected leasing activity and leasing costs for the year are as follows:

	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 costs ($000's)	**$ 6,600**	$ 4,400

Cash Utilized in Investing Activities

($000's)		Three Months Ended March 31		
		2006		2005
Investment in rental properties	**$**	**(2,107)**	$	(1,270)
Acquisition of rental properties		**(21,490)**		(40,955)
Acquisition deposit on rental properties		**(1,200)**		(845)
Investment in mezzanine loan		**–**		(600)
Net proceeds from disposal of rental properties		**–**		2,279
Change in restricted cash, net		**331**		2,709
Cash utilized in investing activities	**$**	**(24,466)**	$	(38,682)

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

Performance Indicators ($000's)		Three Months Ended March 31		
		2006		2005
Investing Activities				
Acquisition of rental properties	**$**	**31,366**	$	51,431
Building improvements	**$**	**1,489**	$	1,008

During the quarter, we acquired $31.4 million of rental properties and related intangible assets and assumed $9.3 million of mortgages. A summary of these acquisitions is provided on page 25. Acquisitions completed during 2005 and 2006 have increased net operating income by approximately $7.0 million compared to 2005.

Building Improvements

($000's)		Three Months Ended March 31		
		2006		2005
Building improvements:				
Recurring recoverable	**$**	**506**	$	230
Recurring non-recoverable		**70**		–
Non-recurring		**913**		778
Total	**$**	**1,489**	$	1,008

For the three-month period, capital expenditures or expenditures accrued for rental property building improvements and equipment were $1.5 million (March 31, 2005 – $1.0 million). Recurring recoverable costs included $0.4 million incurred in the quarter for various roof and chiller repairs. Non-recurring costs in the quarter included $0.8 million of construction costs for a build-to-suit property we are completing for a tenant as well as the capitalization of carrying costs for a property under redevelopment. The build-to-suit property is located in suburban Edmonton, will comprise 29,000 square feet and the tenant is scheduled to take occupancy in the second quarter of 2006. The estimated total 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 $0.2 million and will be incurred over the next three years.

Mezzanine Loan

Our mezzanine loan investment remains at $11.2 million plus accrued interest of $1.5 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 78%. We currently anticipate acquiring these properties in the second half of 2006.

Cash Generated from Financing Activities

($000's)	Three Months Ended March 31 2006	2005
Mortgages placed, net of costs	**$ 43,334**	$ 4,000
Mortgage principal repayments	**(5,530)**	(4,024)
Mortgage lump sum repayments	**(12,926)**	(2,145)
Term debt principal repayments	**(99)**	(123)
Term debt lump sum repayments	**–**	(2,075)
Revolving credit facility, net	**–**	33,261
Demand non-revolving credit facility	**–**	(3,015)
Distributions paid on REIT Units, Series A	**(9,837)**	(8,364)
Units issued, net of costs	**212**	(4)
Cash generated from financing activities	**$ 15,154**	$ 17,511

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

	March 31, 2006	December 31, 2005
Financing Activities		
Average interest rate	**6.11%**	6.16%
Level of debt (debt-to-gross book value)	**59.2%**	59.3%
Proportion of total debt due in 2006	**5.2%**	7.2%
Debt – average term to maturity (years)	**5.8**	5.9
Variable rate debt as percentage of total debt	**1.5%**	1.6%

Our debt strategy includes fixing the rates on our debt and extending loan terms as long as possible to protect against interest rate volatility. Mortgage financing completed in the quarter has also decreased our average interest rate compared to December 31, 2005.

($000's)	March 31, 2006			December 31, 2005		
	Fixed	Variable	Total	Fixed	Variable	Total
Mortgages	**$ 790,819**	**$ –**	**$ 790,819**	$ 756,920	$ –	$ 756,920
Term debt	**230**	**15,004**	**15,234**	271	15,062	15,333
Debenture – 6.5%	**70,571**	**–**	**70,571**	72,478	–	72,478
Debenture – 5.7%	**98,920**	**–**	**98,920**	98,890	–	98,890
Total	**$ 960,540**	**$ 15,004**	**$ 975,544**	$ 928,559	$ 15,062	$ 943,621
Percentage	**98.5%**	**1.5%**	**100%**	98.4%	1.6%	100%

Mortgages payable include an $8.5 million marked-to-market adjustment (December 31, 2005 – $8.5 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 $1.5 million premiums allocated to their conversion features at March 31, 2006. The marked-to-market adjustment and discount are amortized to interest expense over the term to maturity of the related debt.

($000's)	March 31, 2006
Total assets	**$ 1,538,189**
Accumulated depreciation	**95,208**
Accumulated amortization of acquired intangibles and leasing costs	**18,116**
Gross book value	**$ 1,651,513**
Outstanding debt	**$ 975,544**
Unamortized discount component of convertible debentures	**1,548**
Total debt	**$ 977,092**
Debt-to-gross book value	**59.2%**

At March 31, 2006, debt-to-gross book value increased to 59.2% mainly as a result of $9.3 million in debt assumed to fund acquisitions and an additional $30.6 million in net mortgage financing on existing properties. 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 48.8%. On a prospective basis, we have included the accumulated amortization of tangible and intangible components related to acquired properties in our calculation of debt-to-gross book value to reflect the complete cost added to the asset base. Comparative ratios have not been restated.

Financing Activity

We continued to take advantage of the favourable interest rate environment during the first quarter and secured approximately $43.5 million in new mortgage financing for an average term of 9.1 years at an average interest rate of 5.1%. As a result, our overall average interest rate decreased to 6.11%.

Changes in debt levels since December 31, 2005 result from:

($000's)	Mortgages	Term Debt	Convertible Debentures	Total
Debt as at December 31, 2005	$ 756,920	$ 15,333	$ 171,368	$ 943,621
New debt assumed on rental property acquisitions	9,316	–	–	9,316
New debt placed	43,515	–	–	43,515
Scheduled repayments	(5,530)	(99)	–	(5,629)
Lump sum repayments	(12,926)	–	–	(12,926)
Conversion to unit equity	–	–	(1,935)	(1,935)
Marked-to-market and other adjustments	(476)	–	58	(418)
Debt as at March 31, 2006	$ 790,819	$ 15,234	$ 169,491	$ 975,544

($000's)	March 31, 2006: Debt Maturities	Scheduled Principal Repayments on Non-matured Debt	Amount	%	Weighted interest rates %	December 31, 2005
Remainder of 2006	**$ 31,493**	**$ 18,774**	**$ 50,267**	**5**	**6.29**	$ 67,801
2007	**31,497**	**24,148**	**55,645**	**6**	**6.00**	53,582
2008	**90,753**	**23,469**	**114,222**	**12**	**6.10**	111,186
2009	**117,437**	**19,256**	**136,693**	**14**	**6.47**	131,354
2010	**38,629**	**16,112**	**54,741**	**6**	**5.58**	53,516
2011 and thereafter	**528,063**	**35,913**	**563,976**	**57**	**6.07**	526,182
Total	**$ 837,872**	**$ 137,672**	**$ 975,544**	**100**	**6.11**	$ 943,621

Convertible Debentures

As at March 31, 2006, we had outstanding approximately $71.0 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 2,814,560 REIT Units, Series A, and the 5.7% Debentures are convertible into 3,333,333 REIT Units, Series A. During the quarter, $1.9 million of the principal amount of 6.5% Debentures were converted into 77,400 REIT Units, Series A.

Public Offering of Units

Subsequent to quarter end, on April 7, 2006, we completed a public offering of 2,200,000 REIT Units, Series A for gross cash proceeds of $61.1 million at a price of $27.75 per unit. On April 28, 2006, we issued an additional 320,000 REIT Units, Series A for gross proceeds of approximately $8.9 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 $69.9 million. Costs relating to the offering are estimated to be $2.9 million and will be charged directly to Unitholders' equity.

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, 2005	20,449,209	8,337,365	28,786,574
Units issued pursuant to DRIP	232,550	–	232,550
Units issued pursuant to unit purchase plan	8,693	–	8,693
Conversion of 6.5% Debentures	77,400	–	77,400
Total units outstanding on March 31, 2006	20,767,852	8,337,365	29,105,217
Percentage of all units	71%	29%	100.00%
Units issued pursuant to public offering on April 7 and April 28, 2006	2,520,000	–	2,520,000
Units issued pursuant to DRIP on April 15, 2006	71,083	–	71,083
Units issued pursuant to unit purchase plan	35	–	35
Total units outstanding on April 30, 2006	23,358,970	8,337,365	31,696,335
Percentage of all units	74%	26%	

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. 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 Canadian Generally Accepted Accounting Principles ("GAAP") 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

	Three Months Ended March 31	
($000's except per unit amounts)	2006	2005
Net Income	**$ 3,189**	$ 3,681
Add (deduct):		
Depreciation of rental properties	**8,570**	6,689
Amortization of deferred leasing costs and intangibles	**5,725**	3,778
Imputed amortization of leasing costs related to the rent supplement	**256**	487
Loss (gain) on disposal of rental properties	**24**	(242)
Future income tax	**174**	192
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(5)**	(5)
Dilution gain	**–**	(673)
Non-controlling interest	**1,349**	1,451
FFO	**$ 19,282**	$ 15,358
FFO per unit – basic	**$ 0.67**	$ 0.62
FFO per unit – diluted	**$ 0.63**	$ 0.60

FFO per unit increased 8% over the comparative period primarily due to additional revenue generated by acquisitions as well as increased occupancy. 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 28,968,219 and 35,281,362, respectively.

Management believes FFO is an important measure of the Trust's operating performance and is indicative of its cash-generating activities. This measurement is generally accepted as one of the most meaningful and useful measures of performance of real estate operations; however, it does not represent cash flow from operating activities as defined by GAAP and is not necessarily indicative of cash available to fund Dundee REIT's needs. In 2005, the Real Property Association of Canada ("REALpac") provided guidelines on the definition of FFO to help promote more consistent disclosure. 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

($000's except per unit amounts)	*Three Months Ended March 31* 2006	2005
Net Income	**$ 3,189**	$ 3,681
Add (deduct):		
Depreciation of rental properties	**8,570**	6,689
Amortization of deferred leasing costs and intangibles	**5,725**	3,778
Future income tax recovery	**174**	192
Amortization of marked-to-market adjustment on acquired debt	**(431)**	(350)
Compensation expense, deferred unit incentive plan	**265**	175
Loss (gain) on disposal of rental property	**24**	(242)
Straight-line rent	**(839)**	(1,070)
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(5)**	(5)
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	**21**	4
Amortization of deferred financing costs incurred prior to June 30, 2003	**94**	87
Amortization of market rent adjustments on acquired leases	**(156)**	(33)
Dilution gain	**–**	(673)
Non-controlling interest	**1,349**	1,451
Distributable income	**$ 17,980**	$ 13,684
Distributable income per unit – basic	**$ 0.62**	$ 0.55
Distributable income per unit – diluted	**$ 0.59**	$ 0.54

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

Distributions

The distributions presented in the table below are comprised of $11.4 million relating to REIT Units, Series A and $4.8 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*
2006 Distributions			
Paid in cash or reinvestment in units	$ 10,586	$ 151	$ 10,737
Payable at March 31, 2006	5,327	76	5,403
Total distributions	$ 15,913	$ 227	$ 16,140
2006 Reinvestment			
Reinvested to March 31, 2006	$ 3,777	$ 151	$ 3,928
Reinvested on April 15, 2006	1,904	76	1,980
Total distributions reinvested	$ 5,681	$ 227	$ 5,908
Distributions paid in cash	$ 10,232		
Reinvestment to distribution ratio	35.7%		
Cash distribution payout ratio	64.3%		

Our distribution policy requires us to make monthly cash distributions to our unitholders, equal to at least 80% of distributable income on an annual basis. Distributions declared in the quarter totalled $15.9 million or 88.5% of distributable income, an increase of $1.2 million over the previous quarter. Of this amount, $5.7 million or 35.7% 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. As a result of the high level of participation in the DRIP, our cash payout ratio for our distributions is 64.3%.

Effective August 15, 2005, the holders of LP Class B Units, Series 1 elected to reinvest their distributions in REIT Units, Series A. In the first quarter of 2006, $4.8 million in distributions on LP Class B Units, Series 1 were declared and satisfied by the issuance of 174,065 REIT Units, Series A.

Funds From Operations

Funds from operations grew by 26% to $19.3 million largely as a result of acquisitions, as well as improved occupancy rates and a reduction in the weighted average interest rate on our debt. On a per unit basis, FFO in the first quarter grew 8% to $0.67.

8%

FFO/UNIT GROWTH

Our Results of Operations

($000's)	Three Months Ended March 31 2006	2005
Revenues		
Rental properties revenue	**$ 63,238**	$ 50,354
Interest and fee income	**464**	734
	63,702	51,088
Expenses		
Rental properties operating expenses	**28,164**	23,421
Interest	**14,978**	11,666
Depreciation of rental properties	**8,570**	6,632
Amortization of deferred leasing costs and intangibles	**5,725**	3,645
General and administrative	**1,508**	1,177
	58,945	46,541
Income before the undernoted items	**4,757**	4,547
Dilution gain	**–**	673
Income before income and large corporations taxes	**4,757**	5,220
Income Taxes		
Current income and large corporations taxes	**45**	47
Future income taxes	**174**	192
	219	239
Income before non-controlling interest and discontinued operations	**4,538**	4,981
Income attributable to non-controlling interest	**(1,349)**	(1,402)
Income before discontinued operations	**3,189**	3,579
Discontinued operations	**–**	102
Net income	**$ 3,189**	$ 3,681

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 rental property revenue is primarily a result of additional revenues generated by properties acquired in 2005 and 2006.

Interest and Fee Income

Interest and fee income represents amounts for items such as fees earned from third party property management 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 quarter to quarter.

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 $4.7 million increase in operating expenses mainly reflects the additional costs of managing a larger portfolio of properties.

Interest Expense

The increase in interest expense for the three-month period 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 6.11% compared with 6.51% at March 31, 2005.

Depreciation of Rental Properties

Depreciation increased by $1.9 million compared with the same period in 2005 mainly as a result of acquisitions.

Amortization of Deferred Leasing Costs and Intangibles

Amortization increased by $2.1 million over the comparative period, 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 $1.5 million, an increase of $0.3 million over the comparative period reflecting the growth of our business.

Dilution Gain

The dilution gain in 2005 resulted from the additional LP Class B Units, Series 1 issued pursuant to the DRIP, which caused the dilution of our ownership of Dundee Properties LP. As of August 2005, the holders of LP Class B Units, Series 1 have elected to reinvest their distributions in REIT Units, Series A, and as a result our ownership is no longer being diluted.

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.

Income Attributable to Non-Controlling Interest

Income attributable to non-controlling interest of $1.3 million represents the income from operations allocated to the holders of LP Class B Units, Series 1.

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 GAAP. These assets and operations are disclosed separately on the balance sheet and income statement. We did not own any properties as at March 31, 2006 that were identified as held for sale. The $0.1 million in 2005 included in the financial statements represents the fulfilment of obligations and realization of assets for properties that were sold in prior periods.

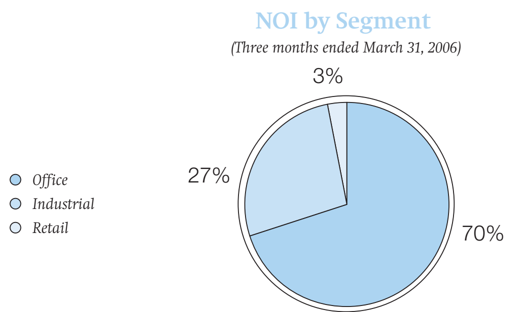
Net Operating Income ("NOI")

($000's)	Three Months Ended March 31 2006	2005	Growth Amount	%
Office	**$ 24,355**	$ 18,280	$ 6,075	33
Industrial	**9,507**	7,470	2,037	27
Retail	**1,212**	1,183	29	2
NOI	**35,074**	26,933	8,141	30
Discontinued operations	**–**	173	(173)	
NOI including discontinued operations	**$ 35,074**	$ 27,106	$ 7,968	29

($000's)	Three Months Ended March 31 2006	2005	Growth Amount	%
Québec	**$ 8,224**	$ 5,612	$ 2,612	47
National Capital Region	**5,754**	3,471	2,283	66
Toronto Region	**11,178**	8,948	2,230	25
Alberta	**7,528**	6,566	962	15
Western Canada	**1,352**	1,319	33	3
Total Canada	**34,036**	25,916	8,120	31
United States	**1,038**	1,017	21	2
NOI	**35,074**	26,933	8,141	30
Discontinued operations	**–**	173	(173)	
NOI including discontinued operations	**$ 35,074**	$ 27,106	$ 7,968	29

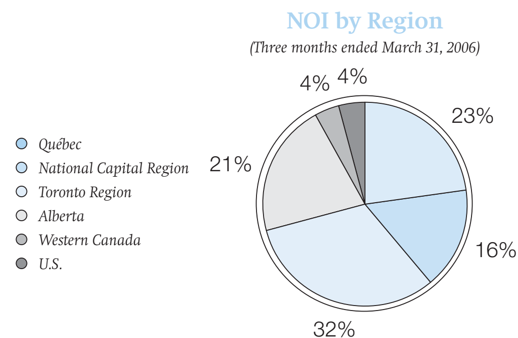
NOI by Segment

(Three months ended March 31, 2006)



NOI by Region

(Three months ended March 31, 2006)



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 30% over the comparative period, primarily due to income from properties acquired in 2005 and 2006.

NOI Comparative Portfolio

($000's)	2006	2005	Growth Amount	%
	Three Months Ended March 31			
Office	**$ 17,657**	$ 16,404	$ 1,253	8
Industrial	**7,208**	7,027	181	3
Retail	**1,191**	1,159	32	3
Comparative properties	**26,056**	24,590	1,466	6
Acquisitions	**7,559**	557	7,002	
Rent supplement	**465**	687	(222)	
GAAP adjustments	**994**	1,099	(105)	
NOI	**35,074**	26,933	8,141	30
Discontinued operations		173	(173)	
NOI including discontinued operations	**$ 35,074**	$ 27,106	$ 7,968	29

($000's)	2006	2005	Growth Amount	%
	Three Months Ended March 31			
Québec	**$ 5,111**	$ 5,000	$ 111	2
National Capital Region	**3,481**	3,266	215	7
Toronto Region	**8,499**	7,968	531	7
Alberta	**6,584**	6,033	551	9
Western Canada	**1,354**	1,324	30	2
	25,029	23,591	1,438	6
United States	**1,027**	999	28	3
Comparative properties	**26,056**	24,590	1,466	6
Acquisitions	**7,559**	557	7,002	
Rent supplement	**465**	687	(222)	
GAAP adjustments	**994**	1,099	(105)	
NOI	**35,074**	26,933	8,141	30
Discontinued operations	**–**	173	(173)	
NOI including discontinued operations	**$ 35,074**	$ 27,106	$ 7,968	29

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 GAAP adjustments which relate to straight-line rents and amortization of market rent adjustments on acquired leases. 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.

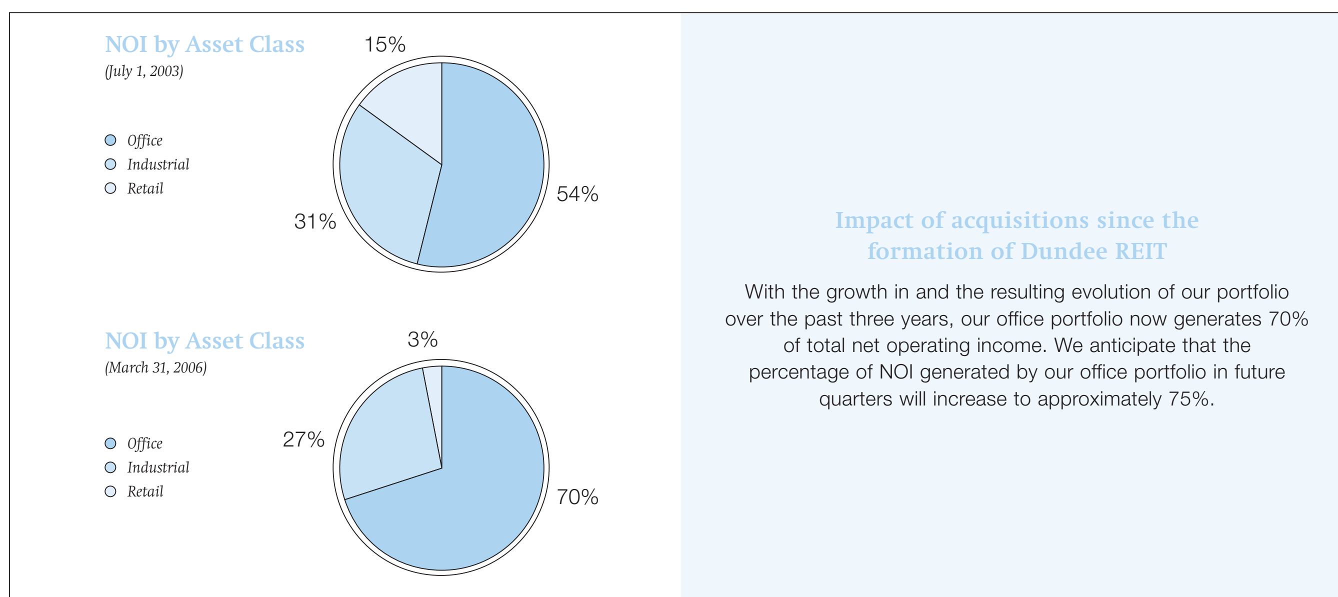
Property NOI generally varies from period to period as a result of changing occupancy levels and the timing of revenues and expenses that do not fluctuate directly with occupancy, such as parking revenue, bad debt provisions and extra tenant services. The increase in comparative NOI is driven by strong performance by our office portfolio and the Alberta industrial portfolio, primarily reflecting increased occupancy. The increase in overall NOI reflects the impact of income from acquisitions completed in 2005 and 2006. The rent supplement from DRC described below contributed $0.5 million for the quarter.

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 as a result of leasing activity in supplemented office and industrial space.

Comparative Office Portfolio

	Three Months Ended March 31			
			Growth	
($000's)	2006	2005	*Amount*	*%*
Québec	**$ 2,832**	$ 2,712	$ 120	4
National Capital Region	**3,481**	3,266	215	7
Toronto Region	**6,565**	5,994	571	10
Alberta	**3,425**	3,108	317	10
Western Canada	**1,354**	1,324	30	2
	17,657	16,404	1,253	8
Acquisitions	**5,659**	557	5,102	
Rent supplement	**296**	466	(170)	
GAAP adjustments	**743**	853	(110)	
Office NOI	**$ 24,355**	$ 18,280	$ 6,075	33

Growth in comparative NOI from the office portfolio is largely a result of improved occupancy. The Toronto Region experienced the most significant occupancy growth, particularly in the North York and Markham submarkets. Results from the National Capital Region for the three-month period were also positively impacted by occupancy growth. Our Alberta office portfolio continues to be nearly fully leased at 99.1%. The increase in comparative NOI during the quarter compared to the prior year quarter is primarily due to the re-leasing of a particular space at a considerably higher rental rate.



Comparative Industrial Portfolio

($000's)	Three Months Ended March 31			
			Growth	
	2006	2005	Amount	%
Québec	**$ 2,279**	$ 2,288	$ (9)	–
Toronto Region	**1,934**	1,974	(40)	(2)
Alberta	**2,995**	2,765	230	8
	7,208	7,027	181	3
Acquisitions	**1,900**	–	1,900	
Rent supplement	**172**	212	(40)	
GAAP adjustments	**227**	231	(4)	
Industrial NOI	**$ 9,507**	$ 7,470	$ 2,037	27

Comparative industrial NOI is up 3% over the respective period in 2005, driven largely by occupancy growth in the Alberta 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 first quarter as a result of a tenant leaving the portfolio for a build-to-suit property.

Comparative Retail Portfolio

($000's)	Three Months Ended March 31			
			Growth	
	2006	2005	Amount	%
Alberta	**$ 164**	$ 160	$ 4	3
United States (US$)	**875**	807	68	8
Foreign exchange	**152**	192	(40)	(21)
Comparative properties	**1,191**	1,159	32	3
Rent supplement	**(3)**	9	(12)	
GAAP adjustments	**24**	15	9	
Retail NOI	**1,212**	1,183	29	2
Discontinued operations	**–**	173	(173)	
Retail NOI including discontinued operations	**$ 1,212**	$ 1,356	$ (144)	(11)

Comparative retail NOI increased by 3% compared with the same quarter last year, largely due to increased occupancy. The decline in NOI including discontinued operations mainly reflects the sale of Simcoe Town Centre, which contributed $0.1 million for the quarter in 2005.

NOI Prior Quarter Comparison

Overall, the comparative properties are maintaining a high level of occupancy and producing consistent NOI. Total NOI growth of 5% quarter-over-quarter largely reflects the impact of acquisitions completed in the fourth quarter of 2005 and in 2006. The decline in retail NOI is expected when comparing the impact of $0.2 million in percentage rents from the last quarter shopping season to the first quarter when sales are generally lower. The decline in industrial NOI reflects the impact of a tenant backruptcy. Discounting the impact of these two factors, comparative NOI increased $0.2 million compared to the previous quarter.

	Three Months Ended			
			Growth	
($000's)	March 31, 2006	December 31, 2005	Amount	%
Office	**$ 17,657**	$ 17,463	$ 194	1
Industrial	**7,208**	7,342	(134)	(2)
Retail	**1,191**	1,321	(130)	(10)
Comparative properties	**26,056**	26,126	(70)	–
Acquisitions	**7,559**	5,847	1,712	
Rent supplement	**465**	458	7	
GAAP adjustments	**994**	920	74	
NOI	**35,074**	33,351	1,723	5
Discontinued operations	**–**	207	(207)	
NOI including discontinued operations	**$ 35,074**	$ 33,558	$ 1,516	5

	Three Months Ended			
			Growth	
($000's)	March 31, 2006	December 31, 2005	Amount	%
Québec	**$ 5,111**	$ 5,183	$ (72)	(1)
National Capital Region	**3,481**	3,299	182	6
Toronto Region	**8,499**	8,612	(113)	(1)
Alberta	**6,584**	6,516	68	1
Western Canada	**1,354**	1,345	9	1
	25,029	24,955	74	–
United States	**1,027**	1,171	(144)	(12)
Comparative properties	**26,056**	26,126	(70)	–
Acquisitions	**7,559**	5,847	1,712	
Rent supplement	**465**	458	7	
GAAP adjustments	**994**	920	74	
NOI	**35,074**	33,351	1,723	5
Discontinued operations	**–**	207	(207)	
NOI including discontinued operations	**$ 35,074**	$ 33,558	$ 1,516	5

Leasing Profile

The overall percentage of occupied and committed space across our rental properties portfolio was 95.6% at quarter end. Both our average office and industrial portfolio occupancy rates are currently above the national industry averages of 91.9% and 94.7%, respectively (CB Richard Ellis, Canadian Office and Industrial Market Views, 1st Quarter, 2006). Occupancy rates discussed in this report include occupied and committed space at March 31, 2006 and exclude space to which the rent supplement is applied.

	Total Portfolio		*Comparative Properties*	
	March 31, 2006 [1]	*December 31, 2005*	*March 31, 2006* [1]	*December 31, 2005*
Office				
Québec	**90.4%**	90.7%	**90.0%**	90.7%
National Capital Region	**98.5%**	99.1%	**98.5%**	99.1%
Toronto Region	**96.9%**	96.2%	**96.9%**	96.2%
Alberta	**98.7%**	99.3%	**98.7%**	99.3%
Western Canada	**99.1%**	99.1%	**99.1%**	99.1%
Total office	**96.1%**	96.3%	**96.1%**	96.3%
Industrial [1]				
Québec	**92.6%**	94.8%	**92.4%**	94.8%
Toronto Region	**96.5%**	96.5%	**96.4%**	96.5%
Alberta	**97.7%**	98.0%	**97.6%**	98.0%
Total industrial	**95.2%**	96.2%	**95.1%**	96.2%
Retail				
Alberta	**100.0%**	100.0%	**100.0%**	100.0%
United States	**94.5%**	94.5%	**94.5%**	94.5%
Total retail	**94.8%**	94.8%	**94.8%**	94.8%
Overall	**95.6%**	96.2%	**95.6%**	96.2%

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

The overall occupancy in our portfolio has softened slightly to 95.6%. Looking ahead, we anticipate that national office vacancy rates will continue to decline. And, while the industrial markets in central Canada are feeling the impact of the strong Canadian dollar, markets in western Canada continue to thrive. Based on current market conditions and our current experience, we anticipate our overall percentage of occupied and committed space will remain stable throughout 2006.

Summary of leasing activity to March 31, 2006:

(square feet)	*Office*	*Industrial*	*Retail*	*Total*
Vacant space available – January 1, 2006	277,203	289,668	43,902	610,773
Remeasurements	(2,144)	(88)	–	(2,232)
Acquisitions	8,800	2,810	–	11,610
Dispositions	–	–	–	–
Leases terminated/expiring	216,433	514,300	1,843	732,576
Total space available for lease	500,292	806,690	45,745	1,352,727
New tenants	70,336	133,114	–	203,450
Renewals	135,254	295,157	1,843	432,254
Total space leased	205,590	428,271	1,843	635,704
Total space available for lease – March 31, 2006	294,702	378,419	43,902	717,023
Net increase in vacant space	17,499	88,751	–	106,250

The above table shows a net increase in vacant space of 106,250 square feet at March 31, 2006. This change is a result of lease expiries in the Québec and Ontario industrial portfolios. During the quarter, 0.7 million square feet of leases expired, offset by 0.6 million square feet of new leases and renewals. The volume of leasing in the office and industrial portfolios is consistent with our expectations.

Lease maturity profile as at March 31, 2006 by asset type:

(square feet)	*Current Vacancy*	*Current Monthly Tenancies*	*2006*	*2007*	*2008*	*2009*	*2010 and thereafter*	*Total*
Office	294,702	53,076	383,983	823,930	579,150	1,327,623	4,120,354	7,582,818
Industrial	378,419	158,326	827,771	1,302,649	1,233,428	1,094,515	2,879,398	7,874,506
Retail	43,902	12,553	46,995	48,737	107,062	42,727	539,557	841,533
Total	717,023	223,955	1,258,749	2,175,316	1,919,640	2,464,865	7,539,309	16,298,857
Percentage	4.4%	1.4%	7.7%	13.3%	11.8%	15.1%	46.3%	100%

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

Average expiring rents as at March 31, 2006:

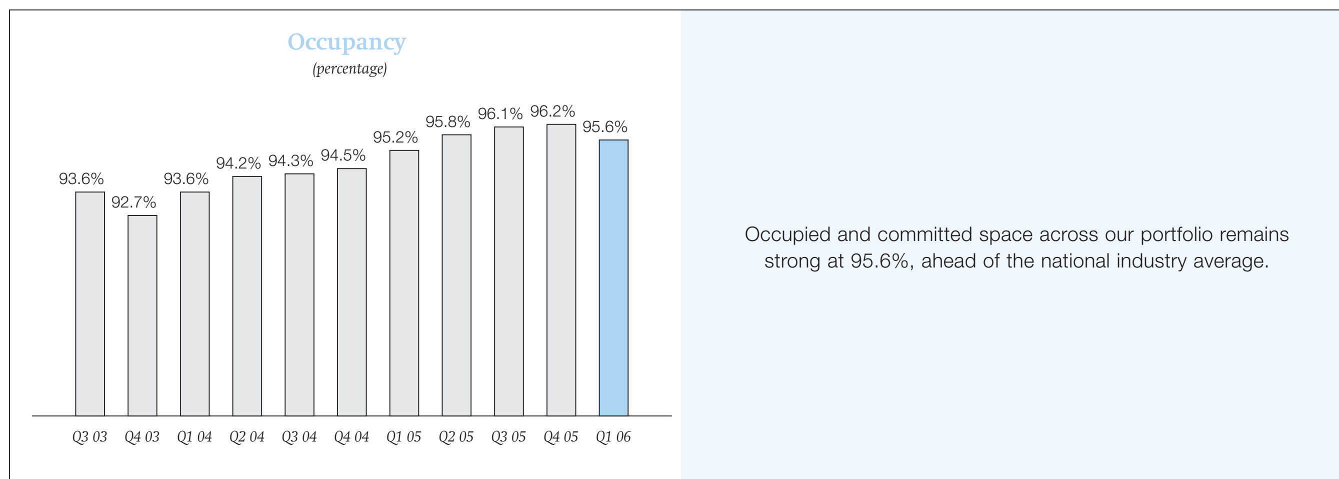
	Current Monthly Tenancies	*2006*	*2007*	*2008*	*2009*	*2010 and thereafter*
Office	$ 11.80	$ 15.23	$ 11.72	$ 11.89	$ 12.32	$ 14.27
Industrial	4.61	5.00	4.94	4.81	4.98	6.05
Average	**6.42**	**8.24**	**7.57**	**7.07**	**9.00**	**10.89**
Retail	16.31	12.23	13.37	11.33	13.17	7.17
Portfolio Average	**$ 6.97**	**$ 8.39**	**$ 7.70**	**$ 7.31**	**$ 9.07**	**$ 10.62**

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 high levels of occupancy in our Toronto and Alberta industrial portfolios and in many of our office markets, this could prove to be challenging.

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

	March 31, 2006 (1)			*December 31, 2005 (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	4.70	9,385	$ 13.47	4.78	9,405	$ 13.58
Industrial	4.35	12,547	$ 5.34	4.33	12,750	$ 5.24
Average	**4.52**	**10,682**	**$ 9.35**	**4.55**	**10,765**	**$ 9.36**
Retail	5.15	6,876	$ 8.87	5.36	6,876	$ 8.89
Portfolio average	**4.55**	**10,400**	**$ 9.32**	**4.60**	**10,470**	**$ 9.33**

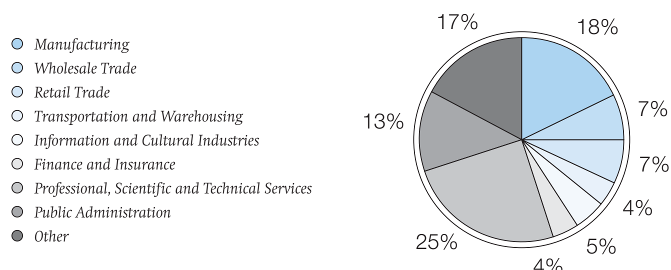
(1) Excludes 2280 boul. Alfred-Nobel, Montréal under redevelopment.
(2) Average in-place rents include straight-line rent adjustments.
(3) Excludes 2301 and 2311 Royal Windsor Drive, Mississauga.



Occupied and committed space across our portfolio remains strong at 95.6%, ahead of the national industry average.

Dundee REIT has a broad tenant base with the average tenant occupying approximately 10,400 square feet. The result is a large and diverse tenant base. With approximately 1,600 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 6.5%, 5.4% and 3.6% of our gross rental revenue, respectively. The stability and quality of our cash flow is enhanced with approximately 13% 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	705,000	4.3%	6.5%	2006–2015
Government of Ontario	515,000	3.2%	5.4%	2007–2015
Telus Communications	291,000	1.8%	3.6%	2016
Bell Canada	271,000	1.7%	2.1%	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%	1.2%	2008–2011
Total	2,520,000	15.6%	26.5%	

Acquisitions

Acquisitions Completed During the Quarter

A component of our growth strategy is to acquire 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 quarter are outlined below.

Quarter ended March 31, 2006	*Property Type*	*Interest Acquired*	*Acquired GLA (sq. ft.)*	*Occupancy on Acquisition*	*Purchase Price ($000's)*	*Fair Value of Mortgage Assumed ($000's)*	*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%	21,063	6,199	January 27, 2006
Total			412,000		$ 31,366	$ 9,316	

* *A 12 property portfolio mainly located in the greater metropolitan areas of Montréal and Québec City.*

Our acquisition focus remains on individual office and industrial properties in our existing locations. 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. Acquisitions in the quarter totalled $31.4 million and added 0.4 million square feet of well leased properties to our portfolio.

Acquisitions Subsequent to Quarter-end

Subsequent to quarter end, we have acquired an additional 0.4 million square feet of properties for approximately $57.7 million. We also have under contract, subject to a variety of conditions, approximately $135.4 million of office properties totalling 1.1 million square feet, $19.2 million of industrial properties totalling 1.3 million square feet and $19.6 million of land to be held for development.

Internalization of Property Manager

Through our subsidiary Dundee Properties Limited Partnership ("DPLP"), we have reached an agreement with Dundee Realty Corporation ("DRC") to acquire DRC's 50% interest in Dundee Management Limited Partnership ("DMLP"), the entity which provides us with property management and real estate advisory services. The purchase price is estimated to be approximately $13.25 million based on an expected issuance of 500,000 LP Class B Units, Series 1 ("LP B Units") of DPLP. The consideration for the acquisition will be satisfied through the issuance of:

a) 450,000 LP B Units to be delivered on closing; and
b) up to 100,000 LP B Units and/or REIT Units, Series A (a maximum of 8,000 REIT Units, Series A) to be delivered on June 30, 2007 based on the aggregate purchase price of properties (other than properties that are subject to existing purchase commitments) acquired by DPLP between April 1, 2006 and June 30, 2007 as follows:
   (i) if the aggregate purchase price is less than $315.0 million, 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 $315.0 million; and
   (ii) if the aggregate purchase price is equal to or more than $315.0 million, 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 $315.0 million and the denominator of which is $240.0 million.

Approximately $11.9 million of the purchase price will be recognized on closing, with additional amounts recognized periodically as we complete additional acquisitions. All of the purchase price, with the exception of amounts relating to the tangible assets of DMLP acquired will be expensed in the financial statements.

In conjunction with the transaction, DMLP and DRC have agreed to extend the term of their agreement under which DMLP provides administrative and advisory services to DRC for an additional five years to June 30, 2013. Also, the terms of the LP B Units will be amended to provide that they may not be transferred to a third party (other than a subsidiary of the holder). As a result, if a holder of LP B Units wishes to transfer the LP B Units to a third party, it must first convert the LP B Units into REIT Units, Series B. This amendment will permit us to treat the outstanding LP B Units as outstanding equity for financial statement purposes in accordance with Canadian GAAP. As a result, effective May 1, 2006, all LP B Units will be presented as equity. Currently the LP B Units are presented as non-controlling interest.

To evaluate this transaction, our Board of Trustees established a Special Committee of Independent Trustees. The Special Committee concluded that the transaction is in the best interest of Dundee REIT and fair to our public unitholders and recommended that the Board of Trustees approve the transaction. With the completion of the transaction, Dundee REIT will own 100% of DMLP. We expect the transaction, which is effective May 1, 2006, to be completed by May 8, 2006.

QUARTERLY INFORMATION

The following tables show quarterly information since March 31, 2004.

($000's)	*Q1 2006*	*Q4 2005*	*Q3 2005*	*Q2 2005*	*Q1 2005*	*Q4 2004*	*Q3 2004*	*Q2 2004*
Revenues								
Rental properties revenue	**$ 63,238**	$ 60,630	$ 57,619	$ 52,973	$ 50,354	$ 49,643	$ 47,562	$ 45,811
Interest and fee income	**464**	397	410	619	734	635	585	428
	63,702	61,027	58,029	53,592	51,088	50,278	48,147	46,239
Expenses								
Rental properties operating expenses	**28,164**	27,279	25,309	23,532	23,421	23,563	20,758	20,192
Interest	**14,978**	14,701	14,378	13,215	11,666	11,600	11,683	10,250
Depreciation of rental properties	**8,570**	8,117	7,997	6,829	6,632	6,726	6,539	6,238
Amortization of deferred leasing costs and intangibles	**5,725**	5,918	5,659	4,421	3,645	3,563	3,611	3,313
General and administrative	**1,508**	1,640	1,362	1,245	1,177	1,899	1,145	1,205
	58,945	57,655	54,705	49,242	46,541	47,351	43,736	41,198
Income before the undernoted items	**4,757**	3,372	3,324	4,350	4,547	2,927	4,411	5,041
Provision for impairment in value of rental property	**–**	(11,533)	–	–	–	–	–	–
Loss on disposal of rental property	**–**	–	–	–	–	(11)	–	(11)
Dilution gain	**–**	296	269	652	673	548	365	185
Income (loss) before income and large corporations taxes	**4,757**	(7,865)	3,593	5,002	5,220	3,464	4,776	5,215
Income taxes								
Current income and large corporations taxes	**45**	49	44	41	47	46	29	18
Future income taxes (recovery)	**174**	(4,286)	258	183	192	(25)	(1,946)	(1)
Income tax expense (recovery)	**219**	(4,237)	302	224	239	21	(1,917)	17
Income (loss) before non-controlling interest and discontinued operations	**4,538**	(3,628)	3,291	4,778	4,981	3,443	6,693	5,198
Loss (income) attributable to non-controlling interest	**(1,349)**	1,158	(1,013)	(1,365)	(1,402)	(981)	(1,986)	(1,560)
Income (loss) before discontinued operations	**3,189**	(2,470)	2,278	3,413	3,579	2,462	4,707	3,638
Discontinued operations	**–**	(2,545)	(55)	7	102	565	668	(11,844)
Net income (loss)	**$ 3,189**	**$ (5,015)**	**$ 2,223**	**$ 3,420**	**$ 3,681**	**$ 3,027**	**$ 5,375**	**$ (8,206)**
Net income (loss) per unit								
Basic	**$ 0.15**	$ (0.28)	$ 0.13	$ 0.20	$ 0.22	$ 0.18	$ 0.32	$ (0.49)
Diluted [1]	**$ 0.15**	$ (0.29)	$ 0.12	$ 0.17	$ 0.18	$ 0.16	$ 0.30	$ (0.50)

(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

($000's)	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Net income (loss)	**$ 3,189**	$ (5,015)	$ 2,223	$ 3,420	$ 3,681	$ 3,027	$ 5,375	$ (8,206)
Add (deduct):								
Depreciation of rental properties	**8,570**	8,117	8,053	6,884	6,689	6,785	6,605	6,690
Amortization of deferred leasing costs and intangibles	**5,725**	5,918	5,765	4,524	3,778	3,672	3,764	3,494
Future income tax	**174**	(4,286)	259	183	192	(25)	(1,946)	(1)
Imputed amortization of leasing costs related to the rent supplement	**256**	318	168	204	487	336	286	362
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**(5)**	(6)	(4)	(3)	(5)	(4)	(3)	(3)
Dilution gain	**–**	(296)	(269)	(652)	(673)	(548)	(365)	(185)
(Gain) loss on disposal of rental properties	**24**	3,837	–	25	(242)	(287)	(443)	(2,396)
Provision for impairment in value of rental property	**–**	11,533	–	–	–	–	–	19,729
Non-controlling interest	**1,349**	(2,281)	986	1,367	1,451	1,245	2,292	(3,782)
Funds from operations	**19,282**	17,839	17,181	15,952	15,358	14,201	15,565	15,702
Add (deduct):								
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	**–**	–	–	–	–	4	3	3
Imputed amortization of leasing costs related to the rent supplement	**(256)**	(318)	(168)	(204)	(487)	–	–	–
Amortization of marked-to-market adjustment on acquired debt	**(431)**	(417)	(426)	(819)	(350)	(315)	(315)	(484)
Deferred unit compensation expense	**265**	243	240	172	175	568	107	106
Straight-line rent	**(839)**	(838)	(904)	(874)	(1,070)	(889)	(1,140)	(1,286)
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	**21**	25	78	3	4	14	32	33
Amortization of deferred financing costs incurred prior to June 30, 2003	**94**	94	98	87	87	104	86	74
Amortization of deferred leasing costs incurred subsequent to June 30, 2003	**–**	–	–	–	–	(1,089)	(796)	(544)
Amortization of market rent adjustments on acquired leases	**(156)**	(82)	(109)	(108)	(33)	(56)	(83)	8
Distributable income	**$ 17,980**	$ 16,546	$ 15,990	$ 14,209	$ 13,684	$ 12,542	$ 13,459	$ 13,612
Funds from operations per unit								
Basic [(1)]	**$ 0.67**	$ 0.68	$ 0.68	$ 0.64	$ 0.62	$ 0.58	$ 0.64	$ 0.65
Diluted	**$ 0.63**	$ 0.64	$ 0.63	$ 0.60	$ 0.60	$ 0.56	$ 0.62	$ 0.65
Distributable income per unit								
Basic [(1)]	**$ 0.62**	$ 0.63	$ 0.63	$ 0.57	$ 0.55	$ 0.51	$ 0.55	$ 0.56
Diluted	**$ 0.59**	$ 0.60	$ 0.59	$ 0.54	$ 0.54	$ 0.50	$ 0.54	$ 0.56
Weighted average units outstanding for FFO and DI								
Basic	**28,968,219**	26,266,118	25,387,969	25,081,201	24,865,912	24,651,828	24,411,074	24,175,288
Diluted	**35,281,362**	32,562,042	31,712,785	31,480,407	27,924,777	27,694,849	27,446,183	24,530,461

(1) The LP Class B Units, Series 1 are included in the calculation of Basic FFO per unit and Basic DI per unit.

Period end occupied and committed space:

	March 31, 2006	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004
Office	96.1%	96.3%	95.5%	95.7%	94.7%	94.3%	95.1%	95.4%
Industrial	95.2%	96.2%	97.0%	96.3%	96.0%	94.9%	93.7%	93.4%
Retail	94.8%	94.8%	93.0%	93.0%	92.4%	93.3%	92.9%	92.8%
Overall	95.6%	96.2%	96.1%	95.8%	95.2%	94.5%	94.3%	94.2%

Excludes properties under redevelopment and properties held for sale.

OUTLOOK

At the end of last year, we indicated that we would maintain our focus on acquisitions, and continue working towards achieving greater funds from operations, improving market awareness of our business and increasing our market capitalization. The results from the first quarter mark a strong start toward achieving these goals.

During the quarter we acquired $31.4 million of assets; bringing total assets acquired since July 2003 to about $760 million. Funds from operations (“FFO”) was $19.3 million, up 26% compared to the same period in 2005, largely as a result of acquisitions, as well as improved occupancy rates and a reduction in the weighted average interest rate on our debt. On a per unit basis, FFO in the first quarter grew 8% to $0.67. Net operating income from comparative properties is up by an impressive 6% to $26.1 million, largely reflecting increased occupancy over the same period in 2005 in the Ontario and Alberta office portfolios and the Alberta industrial portfolio. At quarter-end, our average office and industrial occupancy rates showed a slight decline over our all-time high at year-end, however, they remain above the national industry averages. Looking ahead, with the continued decrease in national office vacancy rates, we believe that asking rates for office space will start to rise in most markets. And, while industrial markets in central Canada are feeling the impact of the ever-strengthening Canadian dollar, Western Canada’s markets continue to thrive.

Events that will serve to further strengthen our results in future periods include the acquisitions completed during the quarter as well as the $57.7 million of acquisitions completed subsequent to quarter-end, which will contribute to our results for most if not all of the second quarter, and an additional $174.2 million of assets secured under contract and subject to a variety of conditions. Another significant event that took place subsequent to quarter-end was the announcement regarding the internalization of the property management business. The complete internalization of the property manager is another step in increasing the attractiveness of Dundee REIT to the investment community. The acquisition will be accretive immediately and will become even more valuable as we continue to grow.

Factors that may serve to somewhat offset the positive impact of these events in the second quarter include the decline in occupancy rates experienced in the first quarter, the delay between the receipt of the funds from the equity offering completed in early April and their full deployment in investments and the anticipated loss of income that will arise from the sale of 50% of our retail asset in Atlanta once it is completed.

The performance of Dundee REIT, both operationally and financially, is solid and is a testament to management’s focus on our strategy. Our portfolio has evolved such that we have become the only national office real estate investment trust in Canada. We continue to make accretive investments, including the internalization of the property manager, and we are confident that our portfolio will continue to generate sustainable and growing funds from operations.

RISKS AND OUR STRATEGY TO MANAGE

Dundee REIT is exposed to various risks and uncertainties. For a list and explanation of these risks and uncertainties, please refer to our 2005 Annual Report or our Annual Information Form for the year ended December 31, 2005 filed on SEDAR (www.sedar.com).

CRITICAL ACCOUNTING ESTIMATES

Management of Dundee REIT believes that certain policies may be subject to estimation and management's judgment. For a list and explanation of these policies, please refer to Note 2 of the Interim Financial Statements and to our 2005 Annual Report.

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.

DUNDEE REAL ESTATE INVESTMENT TRUST
CONSOLIDATED BALANCE SHEETS

(unaudited) *(in thousands of dollars)*	*Note*	*March 31, 2006*	*December 31, 2005*
Assets			
Rental properties	4	**$ 1,349,576**	$ 1,328,395
Deferred costs	5	**65,237**	65,285
Amounts receivable	6	**14,862**	13,378
Prepaid expenses and other assets	7	**28,318**	27,175
Cash and cash equivalents		**22,434**	16,516
Intangible assets	8	**57,762**	56,964
		$ 1,538,189	$ 1,507,713
Liabilities			
Debt	9	**$ 975,544**	$ 943,621
Amounts payable and accrued liabilities	10	**32,719**	32,260
Distributions payable	11	**5,403**	5,356
Future income tax liability		**1,751**	1,577
Intangible liabilities	8	**6,071**	6,181
		1,021,488	988,995
Non-controlling Interest	12	**144,559**	146,976
Unitholders' Equity	12	**372,142**	371,742
		$ 1,538,189	$ 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
Trustee

MICHAEL J. COOPER
Trustee

DUNDEE REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF NET INCOME

(unaudited)
For the Three Months Ended March 31
(in thousands of dollars, except per unit amounts)

	Note	2006	2005
Revenues			
Rental properties revenue		**$ 63,238**	$ 50,354
Interest and fee income		**464**	734
		63,702	51,088
Expenses			
Rental properties operating expenses		**28,164**	23,421
Interest	13	**14,978**	11,666
Depreciation of rental properties		**8,570**	6,632
Amortization of deferred leasing costs and intangibles		**5,725**	3,645
General and administrative		**1,508**	1,177
		58,945	46,541
Income Before the Undernoted Items		**4,757**	4,547
Dilution gain	12	**–**	673
Income Before Income and Large Corporations Taxes		**4,757**	5,220
Income Taxes			
Current income and large corporations taxes		**45**	47
Future income taxes		**174**	192
		219	239
Income Before Non-Controlling Interest and Discontinued Operations		**4,538**	4,981
Income Attributable to Non-Controlling Interest		**(1,349)**	(1,402)
Income Before Discontinued Operations		**3,189**	3,579
Discontinued Operations	17	**–**	102
Net Income		**$ 3,189**	$ 3,681
Basic Income per Unit			
Continuing operations	14	**$ 0.15**	$ 0.21
Discontinued operations		**–**	0.01
Net Income		**$ 0.15**	$ 0.22
Diluted Income per Unit			
Continuing operations	14	**$ 0.15**	$ 0.17
Discontinued operations		**–**	0.01
Net Income		**$ 0.15**	$ 0.18

See accompanying notes to the consolidated financial statements

DUNDEE REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(unaudited) *(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)**	**$**	**371,742**
Net income		**–**		**–**		**3,189**		**–**		**–**		**3,189**
Distributions paid	11	**–**		**–**		**–**		**(7,564)**		**–**		**(7,564)**
Distributions payable	11	**–**		**–**		**–**		**(3,816)**		**–**		**(3,816)**
Distribution Reinvestment Plan	12	**232,550**		**6,256**		**–**		**–**		**–**		**6,256**
Unit Purchase Plan	12	**8,693**		**234**		**–**		**–**		**–**		**234**
Conversion of 6.5% Debentures to equity	12	**77,400**		**1,935**		**–**		**–**		**–**		**1,935**
Deferred Unit Incentive Plan	12	**–**		**265**		**–**		**–**		**–**		**265**
Issue costs		**–**		**(112)**		**–**		**–**		**–**		**(112)**
Change in foreign currency translation adjustment		**–**		**–**		**–**		**–**		**13**		**13**
Unitholders' Equity, March 31, 2006		**20,767,852**	**$**	**455,256**	**$**	**19,033**	**$**	**(97,060)**	**$**	**(5,087)**	**$**	**372,142**

(unaudited) *(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		–		–		3,681		–		–		3,681
Distributions paid		–		–		–		(6,187)		–		(6,187)
Distributions payable		–		–		–		(3,095)		–		(3,095)
Distribution Reinvestment Plan		34,840		912		–		–		–		912
Unit Purchase Plan		151		4		–		–		–		4
Conversion of 6.5% Debentures to equity		400		10		–		–		–		10
Redemption of units		(100)		(2)		–		–		–		(2)
Deferred Unit Incentive Plan	12	–		175		–		–		–		175
Issue costs		–		(4)		–		–		–		(4)
Change in foreign currency translation adjustment		–		–		–		–		96		96
Unitholders' Equity, March 31, 2005		16,855,254	$	358,680	$	15,216	$	(56,731)	$	(3,030)	$	314,135

See accompanying notes to the consolidated financial statements

DUNDEE REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)
For the Three Months Ended March 31
(in thousands of dollars)

	Note	2006	2005
Generated from (Utilized in) Operating Activities			
Net income		**$ 3,189**	$ 3,681
Non-cash items:			
Depreciation of rental properties		**8,570**	6,689
Amortization of deferred leasing costs and intangibles		**5,725**	3,778
Amortization of deferred financing costs		**433**	296
Amortization of marked-to-market adjustment on acquired debt		**(431)**	(350)
Gain on disposal of rental properties		**–**	(242)
Deferred unit compensation expense		**265**	175
Future income taxes		**174**	192
Amortization of market rent adjustments on acquired leases		**(156)**	(33)
Straight-line rent adjustment		**(839)**	(1,070)
Dilution gain		**–**	(673)
Non-controlling interest		**1,349**	1,451
		18,279	13,894
Deferred leasing costs incurred		**(2,539)**	(2,624)
Change in non-cash working capital	19	**(510)**	(712)
		15,230	10,558
Generated from (Utilized in) Investing Activities			
Investment in rental properties		**(2,107)**	(1,270)
Acquisition of rental properties	3	**(21,490)**	(40,955)
Acquisition deposit on rental properties		**(1,200)**	(845)
Investment in mezzanine loan		**–**	(600)
Net proceeds from disposal of rental properties		**–**	2,279
Change in restricted cash, net		**331**	2,709
		(24,466)	(38,682)
Generated from (Utilized in) Financing Activities			
Mortgages placed, net of costs		**43,334**	4,000
Mortgage principal repayments		**(5,530)**	(4,024)
Mortgage lump sum repayments		**(12,926)**	(2,145)
Term debt principal repayments		**(99)**	(123)
Term debt lump sum repayments		**–**	(2,075)
Demand revolving credit facility, net		**–**	33,261
Demand non-revolving credit facility		**–**	(3,015)
Distributions paid on REIT Units	11	**(9,837)**	(8,364)
Units issued, net of costs		**212**	(4)
		15,154	17,511
Increase (Decrease) in Cash and Cash Equivalents		**5,918**	(10,613)
Cash and Cash Equivalents, Beginning of Period		**16,516**	17,331
Cash and Cash Equivalents, End of Period		**$ 22,434**	$ 6,718

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DUNDEE REAL ESTATE INVESTMENT TRUST

(ALL DOLLAR AMOUNTS IN THOUSANDS, EXCEPT UNIT OR PER UNIT AMOUNTS) (UNAUDITED)

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.

At March 31, 2006, DRC directly and indirectly owned 501,255 REIT Units, Series A ("Units" or "REIT Units") and 8,337,365 LP Class B Units, Series 1.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The disclosure requirements for interim financial statements do not conform in all material respects with the requirements of Canadian generally accepted accounting principles ("GAAP") for annual financial statements. These interim financial statements should be read in conjunction with the consolidated financial statements of Dundee REIT as at, and for the year ended December 31, 2005. These statements are in conformity with the requirements of GAAP for interim financial statements as recommended in the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, Interim Financial Statements.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

These consolidated financial statements follow the same accounting policies and the methods of their application as used in the December 31, 2005 financial statements.

3. PROPERTY ACQUISITIONS

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

Three Months Ended March 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%**	**21,063**	**6,199**	**January 27, 2006**
Total			**412,000**		**$ 31,366**	**$ 9,316**	

Three Months Ended March 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%	$ 9,635	$ 4,655	January 13, 2005
1219 Corporate Drive, Burlington	industrial	100%	103,000	100%	6,590	–	January 31, 2005
204 King Street East, Toronto	office	100%	135,000	100%	20,398	–	February 25, 2005
2580 avenue Dollard, Montréal	industrial	100%	90,000	100%	4,673	2,600	March 2, 2005
Epcor Centre, Edmonton	office	10%[1]	19,000	100%	1,529	–	March 4, 2005
2465 St. Laurent Blvd., Ottawa	office	100%	62,000	100%	8,606	3,221	March 8, 2005
Total			523,000		$ 51,431	$ 10,476	

(1) As of 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 Three Months Ended March 31	2006	2005
Rental properties		
Land	**$ 4,508**	$ 7,507
Buildings	**22,679**	36,609
	27,187	44,116
Deferred leasing costs acquired	**1,151**	1,527
Tenant loan receivables	**–**	177
Intangible assets		
Value of in-place leases	**1,404**	2,470
Lease origination costs	**416**	543
Value of above market rent leases	**88**	38
Value of tenant relationships	**1,382**	2,929
	31,628	51,800
Intangible liabilities		
Value of below market rent leases	**(262)**	(369)
Total purchase price	**$ 31,366**	$ 51,431
The consideration paid consists of:		
Cash		
Paid during the period	**$ 21,490**	$ 40,955
Deposit	**560**	–
	22,050	40,955
Assumed mortgages at fair value	**9,316**	10,476
Total consideration	**$ 31,366**	$ 51,431

The allocations of the purchase prices to fair values of assets acquired and liabilities assumed for property acquisitions completed after December 16, 2005 have not been finalized and will be subject to adjustment.

4. RENTAL PROPERTIES

	March 31, 2006			December 31, 2005		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	**$ 238,367**	**$ –**	**$ 238,367**	$ 233,502	$ –	$ 233,502
Buildings and improvements	**1,194,137**	**(92,844)**	**1,101,293**	1,170,111	(84,412)	1,085,699
Equipment	**2,992**	**(2,364)**	**628**	2,661	(1,927)	734
Rental properties under development	**9,288**	**–**	**9,288**	8,460	–	8,460
Total	**$ 1,444,784**	**$ (95,208)**	**$ 1,349,576**	$ 1,414,734	$ (86,339)	$ 1,328,395

5. DEFERRED COSTS

	March 31, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Deferred leasing costs	**$ 74,654**	**$ (27,048)**	**$ 47,606**	$ 71,133	$ (24,049)	$ 47,084
Deferred recoverable costs	**13,649**	**(6,374)**	**7,275**	13,462	(5,970)	7,492
Deferred financing costs	**13,831**	**(4,222)**	**9,609**	13,819	(3,881)	9,938
Other deferred costs	**1,625**	**(878)**	**747**	1,617	(846)	771
Total	**$ 103,759**	**$ (38,522)**	**$ 65,237**	$ 100,031	$ (34,746)	$ 65,285

Amortization of deferred recoverable costs included in operating expenses for the three months ended March 31, 2006 is $404 (March 31, 2005 – $554).

6. AMOUNTS RECEIVABLE

Amounts receivable are net of credit adjustments of $4,992 (December 31, 2005 – $3,718). Total U.S. dollar denominated amounts receivable relating to self-sustaining foreign operations are US$385 (December 31, 2005 – US$560). Amounts receivable include straight-line rents receivable of $10,788 (December 31, 2005 – $9,944).

7. PREPAID EXPENSES AND OTHER ASSETS

	March 31, 2006	December 31, 2005
Prepaid expenses	**$ 6,692**	$ 5,576
Mezzanine loan	**12,691**	12,513
Vendor loan	**3,450**	3,450
Deposits	**1,462**	1,282
Restricted cash	**4,023**	4,354
Total	**$ 28,318**	$ 27,175

The Trust has provided a mezzanine loan in the principal amount of $11,226 to the Airport Corporate Centre West Joint Venture ("ACCW") to finance certain development projects. The loan is to be repaid on the earlier of February 19, 2014 or the date the development projects are sold. Interest is accrued monthly and payment is contingent on the cash flows generated by the development. To date, no cash interest has been received but interest income at an effective rate of 6.34% has been accrued to reflect what the Trust estimates will be collectible at the completion of the project. The loan is subordinate to all third party debt of the borrower.

The Trust has entered into a mortgage loan purchase agreement with a lender of ACCW to purchase the loan along with all security for an amount equal to the loan outstanding plus accrued interest. The closing date is the earlier of the delivery of a default notice by the lender and April 30, 2007. The loan balance at March 31, 2006 is $22,921.

A vendor loan in the principal amount of $3,465 formed a portion of the proceeds from the sale of Northgate Mall in December 2004. The loan bears interest at 5.96%, is payable monthly and the principal is to be repaid by December 14, 2006.

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

8. INTANGIBLE ASSETS AND LIABILITIES

	March 31, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Intangible Assets						
Value of above market rent leases	**$ 5,202**	**$ (1,473)**	**$ 3,729**	$ 5,113	$ (1,256)	$ 3,857
Value of in-place leases	**29,885**	**(7,620)**	**22,265**	28,614	(6,413)	22,201
Lease origination costs	**8,878**	**(2,061)**	**6,817**	8,465	(1,683)	6,782
Value of tenant relationships	**29,005**	**(4,054)**	**24,951**	27,418	(3,294)	24,124
Total	**$ 72,970**	**$ (15,208)**	**$ 57,762**	$ 69,610	$ (12,646)	$ 56,964

	March 31, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Intangible Liabilities						
Value of below market rent leases	**$ 8,083**	**$ (2,012)**	**$ 6,071**	$ 7,843	$ (1,662)	$ 6,181

9. DEBT

	March 31, 2006	December 31, 2005
Mortgages	**$ 790,819**	$ 756,920
Convertible debentures	**169,491**	171,368
Term debt	**15,234**	15,333
Total	**$ 975,544**	$ 943,621

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

A revolving credit facility is available up to a formula-based maximum not to exceed $80,000, bearing interest generally at the bank prime rate (5.50% as at March 31, 2006) plus 0.75% or bankers' acceptance rates. The facility expires on June 19, 2006 and is secured by a first ranking collateral mortgage on nine of the Trust's properties and a second ranking collateral mortgage on two properties. As at March 31, 2006, the maximum amount available under this facility was $79,654, of which $59 was utilized in the form of letters of guarantee (December 31, 2005 – $208). As at March 31, 2006, the amount still available under this facility was $79,595.

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

	Weighted Average Interest Rates as at			*Debt Amount*	
	March 31, 2006	*December 31, 2005*	*Maturity Dates*	*March 31, 2006*	*December 31, 2005*
Fixed Rate					
Mortgages	**6.09%**	6.17%	**2006 – 2019**	**$ 790,819**	$ 756,920
Term debt	**6.76%**	6.70%	**2006 – 2008**	**230**	271
Convertible debentures	**6.19%**	6.19%	**2014 – 2015**	**169,491**	171,368
Total fixed rate	**6.10%**	6.17%		**960,540**	928,559
Variable Rate					
Term debt	**6.16%**	5.65%	**2007**	**15,004**	15,062
Total variable rate	**6.16%**	5.65%		**15,004**	15,062
Total debt	**6.11%**	6.16%		**$ 975,544**	$ 943,621

The variable rate term debt outstanding at March 31, 2006 bears interest generally at the rate of one-month bankers' acceptance plus 2.40% (December 31, 2005 – plus 2.40%). At March 31, 2006, the rate of one-month bankers' acceptance was 3.76% (December 31, 2005 – 3.25%).

The scheduled principal repayments and debt maturities are as follows:

Years ending December 31,	*Mortgages*	*Term Debt*	*Convertible Debentures*	*Total*
Remainder of 2006	**$ 49,984**	**$ 283**	**$ –**	**$ 50,267**
2007	**40,751**	**14,894**	**–**	**55,645**
2008	**114,165**	**57**	**–**	**114,222**
2009	**136,693**	**–**	**–**	**136,693**
2010	**54,741**	**–**	**–**	**54,741**
2011 and thereafter	**394,485**	**–**	**169,491**	**563,976**
	$ 790,819	**$ 15,234**	**$ 169,491**	**$ 975,544**

Mortgages include an $8,507 marked-to-market adjustment (December 31, 2005 – $8,488) to reflect the fair value of mortgages at the time the mortgaged property was acquired. The 6.5% and 5.7% Debentures are net of a $1,548 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.

10. AMOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2006	*December 31, 2005*
Trade payables	**$ 3,418**	$ 2,074
Accrued liabilities and other payables	**14,598**	15,787
Accrued interest	**5,096**	5,428
Deposits	**6,445**	6,646
Rent received in advance	**3,162**	2,325
Total	**$ 32,719**	$ 32,260

Total U.S. dollar denominated amounts payable and accrued liabilities relating to self-sustaining foreign operations at March 31, 2006 are US$395 (December 31, 2005 – US$496).

11. DISTRIBUTIONS

The following table sets out distributions for the three months ended March 31, 2006.

	REIT Units, Series A	LP Class B Units, Series 1	Total
Paid in cash	**$ 9,837**	**$ –**	**$ 9,837**
Paid by way of reinvestment in REIT Units, Series A	**1,496**	**4,760**	**6,256**
Less: Payable at December 31, 2005	**(3,769)**	**(1,587)**	**(5,356)**
Plus: Payable at March 31, 2006	**3,816**	**1,587**	**5,403**
Total	**$ 11,380**	**$ 4,760**	**$ 16,140**

The amount payable at March 31, 2006 was satisfied on April 15, 2006 by way of $3,423 in cash and $1,980 by way of 71,083 REIT Units, Series A. Included in the total distributions is the 4% bonus distribution in the amount of $227 that forms part of the Distribution Reinvestment Plan. As of August 15, 2005, the holders of LP Class B Units, Series 1 elected to receive their distributions in the form of REIT Units, Series A.

12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTEREST

	March 31, 2006		December 31, 2005	
	Number of Units	Amount	Number of Units	Amount
REIT Units, Series A	**20,767,852**	**$ 372,142**	20,449,209	$ 371,742
LP Class B Units, Series 1	**8,337,365**	**144,559**	8,337,365	146,976
Total	**29,105,217**	**$ 516,701**	28,786,574	$ 518,718

DPLP Units and Non-controlling Interest

	LP Class B Units, Series 1		Cumulative Foreign Currency Translation Adjustment	Total
	Number of Units	Amount		
Non-controlling interest, January 1, 2006	**8,337,365**	**$ 149,056**	**$ (2,080)**	**$ 146,976**
Income from continuing operations	**–**	**1,349**	**–**	**1,349**
Distributions paid	**–**	**(3,173)**	**–**	**(3,173)**
Distributions payable	**–**	**(1,587)**	**–**	**(1,587)**
Impact of dilution	**–**	**956**	**–**	**956**
Change in foreign currency translation adjustment	**–**	**–**	**38**	**38**
Non-controlling interest, March 31, 2006	**8,337,365**	**$ 146,601**	**$ (2,042)**	**$ 144,559**

Distribution Reinvestment and Unit Purchase Plan ("DRIP")

For the three months ended March 31, 2006, 232,550 REIT Units, Series A were issued under the DRIP for $6,256 (March 31, 2005 – 34,840 Units for $912).

Prior to August 15, 2005, holders of LP Class B Units, Series 1 had their units enrolled in the LP Class B Unit, Series 1 DRIP. This was dilutive to the Trust's effective ownership in DPLP and, accordingly, the Trust recognized a $673 dilution gain for the comparative period in 2005. Since that time, holders of LP Class B Units, Series 1 have elected to receive their distributions in the form of REIT Units, Series A, which is not dilutive to the Trust, and therefore no dilution gain is reported in the current period.

Unit Purchase Plan

For the three months ended March 31, 2006, 8,693 REIT Units, Series A were issued under the Unit Purchase Plan for $234 (March 31, 2005 – 151 Units for $4).

Conversion of 6.5% Debentures

During the quarter ended March 31, 2006, the Trust issued 77,400 REIT Units, Series A upon conversion of $1,935 principal amount of the 6.5% Debentures (March 31, 2005 – 400 Units for $10).

Deferred Unit Incentive Plan

During the three months ended March 31, 2006, $265 (March 31, 2005 – $175) of compensation expense was recorded and is included in general and administrative expenses.

	Weighted Average Grant Date Value	*Deferred Trust Units*	*Income Deferred Trust Units*	*Total Units*
Outstanding at January 1, 2006	**$ 23.60**	**200,167**	**25,041**	**225,208**
Granted during the period	**–**	**–**	**4,510**	**4,510**
Cancelled	**23.60**	**(3,000)**	**(237)**	**(3,237)**
Outstanding and payable at March 31, 2006	**$ 23.60**	**197,167**	**29,314**	**226,481**
Vested but not issued at March 31, 2006	**$ 23.60**	**38,033**	**8,463**	**46,496**

13. INTEREST

Interest incurred and charged to earnings is recorded as follows:

For the Three Months Ended March 31	2006	2005
Interest expense incurred, at stated rate of debt	**$ 15,061**	$ 11,727
Amortization of deferred financing costs	**433**	289
Marked-to-market rate adjustment	**(431)**	(350)
Interest capitalized	**(85)**	–
Interest expense	**$ 14,978**	$ 11,666

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 general debt attributed to a recently acquired property considered to be under development.

14. INCOME PER UNIT

The weighted average number of units outstanding was as follows:

For the Three Months Ended March 31	2006	2005
REIT Units, Series A	**20,587,809**	16,838,490
Vested Deferred Trust Units	**43,045**	14,167
Total weighted-average number of units outstanding for basic income per unit amounts	**20,630,854**	16,852,657
Add incremental units:		
LP Class B Units, Series 1	**–**	8,013,255
Unvested Deferred Trust Units	**46,874**	46,213
Income Deferred Trust Units	**21,834**	12,941
Total weighted average number of units outstanding for diluted income per unit amounts	**20,699,562**	24,925,066

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

For the Three Months Ended March 31		2006		2005
Income before discontinued operations for basic income per unit amounts	**$**	**3,189**	$	3,579
Add: Income attributable to non-controlling interest		**–**		1,402
Depreciation expense		**–**		48
Deduct: Dilution gain		**–**		(673)
Income before discontinued operations for diluted per unit amounts	**$**	**3,189**	$	4,356

The 8,337,365 incremental units of LP Class B Units, Series 1 for the three months ended March 31, 2006 have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

The 6,244,435 incremental units of an assumed conversion of both debenture issues for the three months ended March 31, 2006 (March 31, 2005 – 2,999,711 incremental units) have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

15. SEGMENTED INFORMATION

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

Certain comparative figures have been reclassified to conform to current period's presentation.

A. By Activity

For the Three Months Ended March 31, 2006	*Office*	*Industrial*	*Retail*	*Total*
Operations				
Revenues	**$ 45,598**	**$ 15,178**	**$ 2,462**	**$ 63,238**
Operating expenses	**(21,243)**	**(5,671)**	**(1,250)**	**(28,164)**
Net operating income	**24,355**	**9,507**	**1,212**	**35,074**
Depreciation of rental properties	**(5,802)**	**(2,348)**	**(420)**	**(8,570)**
Amortization of deferred leasing costs and intangibles	**(4,006)**	**(1,611)**	**(108)**	**(5,725)**
Segment income	**$ 14,547**	**$ 5,548**	**$ 684**	**20,779**
Interest expense				**(14,978)**
General and administrative expenses				**(1,508)**
Interest and fee income				**464**
Income taxes				**(219)**
Income attributable to non-controlling interest				**(1,349)**
Net income				**$ 3,189**
Segment rental properties	**$ 922,135**	**$ 384,579**	**$ 42,862**	**$ 1,349,576**
Capital Expenditures				
Investment in rental properties	**$ (788)**	**$ (1,251)**	**$ (68)**	**$ (2,107)**
Acquisition of rental properties	**(9,356)**	**(12,134)**	**–**	**(21,490)**
Deferred leasing costs	**(1,750)**	**(709)**	**(80)**	**(2,539)**
Total capital expenditures	**$ (11,894)**	**$ (14,094)**	**$ (148)**	**$ (26,136)**

For the Three Months Ended March 31, 2005	*Office*	*Industrial*	*Retail*	*Segment Total*	*Discontinued Operations*	*Total*
Operations						
Revenues	$ 35,653	$ 12,241	$ 2,941	$ 50,835	$ 481	$ 50,354
Operating expenses	(17,373)	(4,771)	(1,585)	(23,729)	(308)	(23,421)
Net operating income	18,280	7,470	1,356	27,106	173	26,933
Depreciation of rental properties	(4,353)	(1,849)	(487)	(6,689)	(57)	(6,632)
Amortization of deferred leasing costs and intangibles	(2,654)	(910)	(214)	(3,778)	(133)	(3,645)
Segment income	$ 11,273	$ 4,711	$ 655	$ 16,639	$ (17)	16,656
Interest expense						(11,666)
General and administrative expenses						(1,177)
Interest and fee income						734
Dilution gain						673
Income taxes						(239)
Income attributable to non-controlling interest						(1,402)
Discontinued operations						102
Net income						$ 3,681
Segment rental properties	$ 725,699	$ 304,047	$ 66,024	$ 1,095,770		
Capital Expenditures						
Investment in rental properties	$ (596)	$ (605)	$ (69)	$ (1,270)		
Acquisition of rental properties	(32,259)	(8,696)	–	(40,955)		
Deferred leasing costs	(1,410)	(1,128)	(86)	(2,624)		
Total capital expenditures	$ (34,265)	$ (10,429)	$ (155)	$ (44,849)		

B. By Country

For the Three Months Ended March 31, 2006	*Canada*	*U.S.*	*Segment Total*
Operations			
Revenues	**$ 61,042**	**$ 2,196**	**$ 63,238**
Operating expenses	**(27,006)**	**(1,158)**	**(28,164)**
Net operating income	**34,036**	**1,038**	**35,074**
Depreciation of rental properties	**(8,179)**	**(391)**	**(8,570)**
Amortization of deferred leasing costs and intangibles	**(5,632)**	**(93)**	**(5,725)**
Segment income	**$ 20,225**	**$ 554**	**$ 20,779**
Segment rental properties	**$ 1,311,491**	**$ 38,085**	**$ 1,349,576**
Capital Expenditures			
Investment in rental properties	**$ (2,040)**	**$ (67)**	**$ (2,107)**
Acquisition of rental properties	**(21,490)**	**–**	**(21,490)**
Deferred leasing costs	**(2,473)**	**(66)**	**(2,539)**
Total capital expenditures	**$ (26,003)**	**$ (133)**	**$ (26,136)**

For the Three Months Ended March 31, 2005	*Canada*	*U.S.*	*Segment Total*
Operations			
Revenues	$ 48,609	$ 2,226	$ 50,835
Operating expenses	(22,520)	(1,209)	(23,729)
Net operating income	26,089	1,017	27,106
Depreciation of rental properties	(6,287)	(402)	(6,689)
Amortization of deferred leasing costs and intangibles	(3,713)	(65)	(3,778)
Segment income	$ 16,089	$ 550	$ 16,639
Segment rental properties	$ 1,043,232	$ 52,538	$ 1,095,770
Capital Expenditures			
Investment in rental properties	$ (1,200)	$ (70)	$ (1,270)
Acquisition of rental properties	(40,955)	–	(40,955)
Deferred leasing costs	(2,619)	(5)	(2,624)
Total capital expenditures	$ (44,744)	$ (75)	$ (44,849)

16. 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. Dundee REIT, DPLP, DMLP and DRC are parties to a property management agreement and an administrative services agreement (the “Management Agreement” and the “Services Agreement”). DMLP and DRC are parties to an administrative services agreement (the “DRC Services Agreement”).

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

For the Three Months Ended March 31		2006		2005
Fees Received				
Rent supplement received by Dundee REIT under the Management Agreement (included in rental properties revenue)	**$**	**465**	$	687
Fees, cost recovery and rental income received by Dundee REIT under the DRC Services Agreement (included as a reduction of operating expenses)		**155**		145
Fees Paid				
Fees paid by Dundee REIT under the Management Agreement				
Management fees, included in rental properties' operating expenses	**$**	**998**	$	809
Construction fees, capitalized to the related assets		**59**		68
Lease administration fees, included in deferred leasing costs		**186**		188
Fees paid by Dundee REIT under the Services Agreement				
Acquisition and financing fees, capitalized to the related assets		**137**		130

Included in amounts receivable at March 31, 2006 is $646 related to the Management and Services Agreements and the DRC Services Agreement (December 31, 2005 – $215). Included in accrued liabilities and other payables at March 31, 2006 is $323 related to the Management and Services Agreements (December 31, 2005 – $251). Substantially all of Dundee REIT's services are to be provided by DMLP, and accordingly, Dundee REIT relies on DMLP to continue to provide such services.

17. DISCONTINUED OPERATIONS

The fulfilment 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.
- On November 15, 2005, the Trust completed the sale of Simcoe Town Centre, a 128,000 square foot retail property.

For the Three Months Ended March 31		2006		2005
Revenues				
Rental properties revenue	**$**	**–**	$	481
Interest and fee income		**–**		–
		–		481
Expenses				
Rental properties' operating expenses		**–**		308
Interest		**–**		74
Depreciation of rental properties		**–**		57
Amortization of deferred leasing costs		**–**		133
		–		572
Loss before the undernoted item		**–**		(91)
Gain on sale of rental properties, net		**–**		242
Income from discontinued operations before non-controlling interest		**–**		151
Income attributable to non-controlling interest		**–**		49
Income from discontinued operations	**$**	**–**	$	102

18. 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 has four ground leases on three properties. The terms of the first two leases extend to 2083 and 2076; the last two extend to 2060 including renewals. The leases are at fixed rates for the entire term with respect to the first and the third lease, until September 30, 2006 for the second lease and until June 30, 2010 for the fourth. The renewal terms beyond these dates for the second and fourth leases are defined as variable percentages of the market value of these properties at the date of the renewal.

Purchase and Other Obligations

Through the 2004 acquisition of a 13-building portfolio in Montréal, the Trust acquired leases relating to three buildings in the portfolio 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 negotiated purchase options with the owner of the adjacent lands to allow these obligations to be met.

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 lease agreements that require tenant inducement payments of $1,255. The amounts are expected to be paid in the second quarter of 2006.

The Trust has entered into a lease agreement pursuant to which it is required to construct a property for the tenant. The Trust is required to complete the construction by May 1, 2006. As at March 31, 2006, $2,148 has been incurred.

The Trust has entered into conditional contracts to acquire an additional $174,172 of rental properties.

19. SUPPLEMENTARY CASH FLOW INFORMATION

For the Three Months Ended March 31		2006		2005
Increase in accounts receivable	**$**	**(793)**	$	(366)
Decrease in deferred costs (other than leasing costs)		**264**		319
Increase in prepaid expenses and other assets (excluding restricted cash and mezzanine loan)		**(839)**		(140)
Increase in accounts payable and accrued liabilities (excluding leasing costs)		**1,349**		1,324
Decrease in accounts payable relating to leasing costs		**(491)**		(1,849)
Change in non-cash working capital	**$**	**(510)**	$	(712)

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

For the Three Months Ended March 31		2006		2005
Interest	**$**	**15,376**	$	10,272
Income and large corporations taxes	**$**	**5**	$	–

20. SUBSEQUENT EVENTS

Acquisitions

Effective April 20, 2006, the Trust completed the purchase of 2440 Scanlan Road located in London, Ontario for a purchase price of $6,283. The property consists of 84,633 square foot industrial building.

Effective April 21, 2006, the Trust completed the purchase of Sherwood Place located in Regina for a purchase price of $33,416. The property consists of a nine and two storey office complex totaling 181,559 square feet.

Effective May 1, 2006, the Trust completed the purchase of 1400 boulevard de la Rive-Sud located in Québec City for a purchase price of $12,057. The property consists of 77,078 square foot office building.

Effective May 1, 2006, the Trust completed the purchase of 4255 14th Avenue in Markham, Ontario for a purchase price of $5,908. The property consists of a 57,547 square foot industrial building.

Public Offering of Units

On April 7, 2006, Dundee REIT completed a public offering of 2,200,000 REIT Units, Series A at a price of $27.75 per unit for gross proceeds of $61,050 through the issuance. Costs relating to the offering are estimated to be $2,892 and will be charged directly to Unitholders' equity. On April 28, 2006, we issued an additional 320,000 REIT Units, Series A 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 will increase the total gross proceeds of the offering to approximately $69,930.

Internalization of Property Manager

Dundee REIT, through its subsidiary DPLP, has reached an agreement to acquire the remaining 50% interest in DMLP from DRC. Dundee REIT currently owns a 50% interest in DMLP, which provides property management and real estate advisory services to Dundee REIT. The purchase price is expected to be approximately $13,250 and is to be satisfied through the issuance of 500,000 LP Class B Units, Series 1 ("LP B Units") of DPLP.

The agreement features a price adjustment formula based upon future acquisitions to be completed by Dundee REIT on or before June 30, 2007, which provides for an adjustment of 50,000 LP B Units above or below the 500,000 LP B Units agreed upon. On closing, 450,000 LP B Units will be issued to DRC with the equivalent of 100,000 LP B Units being held in escrow. On June 30, 2007, additional LP B Units will be released from escrow in accordance with the formula and proportionate to the acquisitions completed by Dundee REIT.

In conjunction with the transaction, DMLP and DRC have agreed to extend the term of their agreement under which DMLP provides administrative and advisory services to DRC for an additional five years to June 30, 2013. Also, the terms of the LP B Units will be amended to provide that they may not be transferred to a third party (other than a subsidiary of the holder). As a result, if a holder of LP B Units wishes to transfer the LP B Units to a third party, it must first convert the LP B Units into REIT Units, Series B. This amendment will permit us to treat the outstanding LP B Units as outstanding equity for financial statement purposes in accordance with Canadian GAAP. As a result, effective May 1, 2006, all LP B Units will be presented as equity. Currently the LP B Units are presented as non-controlling interest.

Approximately $11,900 of the purchase price will be recognized on closing, with additional amounts recognized periodically as Dundee REIT completes additional acquisitions. In accordance with Emerging Issues Committee Abstract No. 138 "Internalization of the Management Function in Royalty and Income Trusts", all of the purchase price, with the exception of amounts relating to the tangible assets of DMLP acquired, will be expensed in the financial statements.

Management expects the transaction to close by May 8, 2006, with effect as of May 1, 2006.

CORPORATE INFORMATION

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Taxation of Distributions

Management estimates that 65% of the distributions to be made by the REIT in 2006 will be tax deferred.

For more detailed information, please visit our web site.

Stock Exchange Listing

The Toronto Stock Exchange

Listing Symbols

REIT Units, Series A: D.UN
6.5% Convertible Debenture: D.DB
5.7% Convertible Debenture: D.DB.A

Distribution Reinvestment and Unit Purchase Plan (DRIP)

The purpose of our Distribution Reinvestment and Unit Purchase Plan (DRIP) is to provide Unitholders with a convenient way of investing in additional units without incurring transaction costs such as commissions, service charges or brokerage fees. By participating in the Plan, you may invest in additional units in two ways:

Distribution Reinvestment: Unitholders will have cash distributions from Dundee REIT reinvested in additional units as and when cash distributions are made.

Cash Purchase: Unitholders may invest in additional units by making cash purchases.

If you register in the DRIP you will also receive a “bonus” distribution of Units equal to 4% of the amount of your cash distribution reinvested pursuant to the Plan. In other words, for every $1.00 of cash distributions reinvested by you under the Plan, $1.04 worth of Units will be purchased.

To enrol contact:
Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Attention: Dividend Reinvestment Services

Or call their Customer Contact Centre
at 1 800 564-6253 (toll free) or (514) 982-7555

For more information you may also visit our web site:
www.dundeereit.com

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