



Q2



1
LETTER TO UNITHOLDERS

3
MANAGEMENT'S DISCUSSION AND ANALYSIS
OUR OBJECTIVES

4
OUR STRATEGY
OUR ASSETS

6
Office Rental Properties
Industrial Rental Properties
Development and Redevelopment Properties
Our Equity

7
NUMBERS THAT REPRESENT A GREAT DEAL

8
EXECUTING THE STRATEGY
Our Resources and Financial Condition

17
Our Results of Operations

BETWEEN THE COVERS

23
Leasing Profile

25
Acquisitions

26
Dispositions

27
QUARTERLY INFORMATION

29
OUTLOOK

30
RISKS AND OUR STRATEGY TO MANAGE
CRITICAL ACCOUNTING ESTIMATES
FUTURE CHANGES IN ACCOUNTING POLICIES

31
CONSOLIDATED FINANCIAL STATEMENTS

35
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

LETTER TO UNITHOLDERS

A GREAT DEAL CONTINUES TO HAPPEN AT DUNDEE REIT. AT YEAR-END WE IDENTIFIED SEVERAL KEY GOALS – CONTINUE TO GROW OUR PORTFOLIO, ACHIEVE GREATER FUNDS FROM OPERATIONS, IMPROVE INVESTOR AND MARKET AWARENESS OF DUNDEE REIT AND GROW OUR MARKET CAPITALIZATION. OUR MESSAGE IN THIS REPORT IS SIMPLE – WE HAVE DONE WHAT WE SAID WE WOULD AND OUR SECOND QUARTER RESULTS SUPPORT THE SOUNDNESS OF OUR DECISIONS.

The second quarter was our most active yet:

- We added another \$385.6 million of high quality properties to our portfolio, driving our total asset base up to \$2 billion. The vast majority of these assets are located in Western Canada, adding to our existing concentration of properties, particularly in Alberta, and affording us the opportunity for greater participation in these booming markets. Other activity in our portfolio included dispositions that have virtually eliminated our retail holdings and completed the repositioning of our portfolio. The end result is that 73% of our net operating income is now derived from office properties and 27% is from industrial properties. Looking at the portfolio from another perspective – 40% of our assets, in terms of their book value, are located in Western Canada and benefiting from the accelerated growth in that region.
- Funds from operations for the second quarter were \$21.9 million, up 37% from Q2 2005 and on a per unit basis increased 5% to \$0.67. Our funds from operations (“FFO”) and distributable income are our highest to date. We anticipate that FFO will continue to gain strength into the third quarter as acquisitions completed in the second quarter contribute for a full period. Contributing to our rising FFO were a strong occupancy rate of 95.9%, a reduction in our weighted average interest rate to 6.03% and a decline in our overall level of debt to 57% of gross book value. Equally important to note is that comparative property performance was up 4% from a year ago and 1% from Q1.

- **The market capitalization of Dundee REIT is now in excess of \$1 billion.** Our success in marketing our story is evidenced by the growth in our market value. During the quarter we completed two equity issues, one for \$69.9 million at \$27.75 per unit and another for \$100.0 million at \$28.10 per unit. There was solid market interest in both issues and, as a result, they sold very well. Throughout the spring we also met with a number of investors, sharing the story of our sound asset base and our strategy for growth. With an increasing understanding of our business in the marketplace, our stock price has shown some appreciation – up 11% to the end of the second quarter and 13% to August 8, 2006. Between the equity issues and the appreciation in our stock price, our market capitalization is now in excess of \$1 billion – an important milestone for Dundee REIT.
- **Another highlight was the internalization of the property manager.** We have always held a 50% interest in the property manager and during the quarter we acquired the remaining 50% interest. This was a strategic transaction; one that we expect will provide accretive growth to net operating income and distributable income, both in terms of our current portfolio and with respect to future acquisitions. In addition to the financial benefits of internalizing our property manager, it simplifies our structure and gives investors another compelling reason to hold our units in their investment portfolio.

As always, the relevant question is not what we have done, but what are we going to do next? Firstly, we will intensify our focus on operations – leasing, running the buildings more efficiently and recovering a greater percentage of our expenses. The most valuable growth we can attain will always be from within our existing portfolio. Secondly, we will complete the acquisitions currently under contract, which total approximately \$43.8 million. Combined with the \$26.9 million of transactions closed subsequent to quarter end, and the remaining properties we anticipate acquiring from the joint venture with Pauls Properties, this will mean that our capital is fully utilized. Thirdly, we have established a new pipeline for development properties both through land that we own in Western Canada and a new joint venture with a development partner. Fourthly, we will continue to tell our story to further enhance the perception of Dundee REIT.

We have recorded four strong quarters in a row and Dundee REIT is emerging as one of the top performers in our field this year. The improvements to our business and the changes we have undergone are beginning to be reflected in our stock price, and we expect growing market recognition as we execute our strategy. We will continue to focus on operations to drive our performance and we are confident that if we maintain this focus, add the development assets to our portfolio as they are ready, and complete selective acquisitions, our efforts will continue to be reflected in our unit price performance throughout the second half of 2006.



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 June 30, 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 and estimated market rental rates, 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 August 8, 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, 2nd 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 June 30, 2006, approximately 30% of our total units were enrolled in the DRIP or the equivalent plan for limited partnerships units, including 7% of REIT Units, Series A and 100% of LP Class B Units, Series 1 (please see a description of our equity on page 6).

	<i>December</i>	<i>January</i>	<i>February</i>	<i>March</i>	<i>April</i>	<i>May</i>	<i>June</i>
Distribution Rate	\$ 0.183	\$ 0.183	\$ 0.183	\$ 0.183	\$ 0.183	\$ 0.183	\$ 0.183
Month-end							
Closing Price	\$ 25.70	\$ 26.49	\$ 27.77	\$ 27.80	\$ 28.63	\$ 28.11	\$ 28.20

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 primary focus on mid-sized urban and suburban office properties as well as industrial and prestige 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 acquired best-in-class assets in locations beyond these markets.

During the quarter, we completed approximately \$385.6 million of acquisitions, comprising 1.8 million square feet. While the bulk of the properties acquired are in three of our key target markets – Toronto, Calgary and Edmonton – we also completed accretive acquisitions in other markets that complement our portfolio. Acquisitions in new markets included four office buildings in Yellowknife, two in Regina and one in Saskatoon. All of the properties are high-quality and offer strong occupancy rates. As part of one transaction, we also acquired 60 acres of land located in Edmonton, Saskatoon and Yellowknife. It is our intent to develop the land in Edmonton as office and prestige industrial space, consistent with our strategy of growing our portfolio. The remaining land will be sold or held for future development.

During the quarter, we sold Kameyosek Shopping Centre in Edmonton and a 50% interest in Greenbriar Mall in Atlanta. As part of the Greenbriar transaction, our new co-owner assumed the property management services for the mall. It is our partner's intention to redevelop this property and therefore it has been reclassified as a redevelopment property in this presentation. With the completion of these transactions we have virtually eliminated the retail component of our portfolio.



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

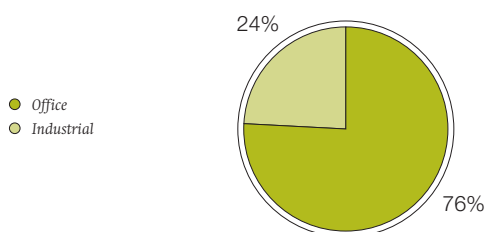
(\$000's)	June 30, 2006 ⁽¹⁾⁽²⁾				December 31, 2005 ⁽¹⁾⁽²⁾	
	Office	Industrial	Total	%	Total	%
Québec	\$ 180,503	\$ 133,570	\$ 314,073	19	\$ 289,797	23
National Capital Region	230,198	–	230,198	14	232,775	18
Toronto Region	305,302	132,754	438,056	27	416,996	32
Alberta	361,928	129,395	491,323	30	281,002	22
Western Canada	167,565	–	167,565	10	58,424	5
Total at June 30, 2006	\$ 1,245,496	\$ 395,719	\$ 1,641,215	100	\$ 1,278,994	100
Percentage	76%	24%	100%		100%	
Total at December 31, 2005	\$ 913,866	\$ 365,128	\$ 1,278,994			
Percentage	71%	29%	100%			

(1) Excludes \$23,520 related to Greenbriar Mall and \$11,134 related to other redevelopment properties (December 31, 2005 – \$47,401).

(2) Excludes discontinued operations.

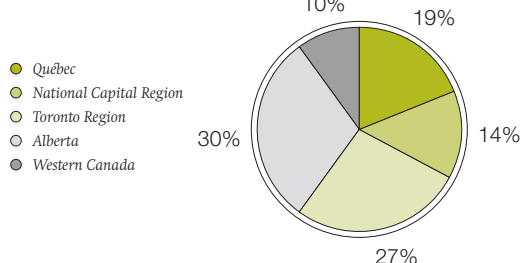
Portfolio Asset Type by Net Book Value

(at June 30, 2006)



Geographic Distribution of Rental Properties by Net Book Value

(at June 30, 2006)



Owned Gross Leasable Area (square feet) ⁽¹⁾

	June 30, 2006				December 31, 2005	
	Office	Industrial	Total	%	Total	%
Québec	1,826,604	3,336,022	5,162,626	30	4,822,052	32
National Capital Region	1,600,391	–	1,600,391	9	1,600,446	11
Toronto Region ⁽²⁾	2,727,846	2,380,505	5,108,351	30	4,865,530	32
Alberta	2,053,037	2,403,359	4,456,396	26	3,481,764	23
Western Canada	914,336	–	914,336	5	275,047	2
Total at June 30, 2006	9,122,214	8,119,886	17,242,100	100	15,044,839	100
Percentage	53%	47%	100%			
Total at December 31, 2005	7,423,728	7,621,111	15,044,839			
Percentage	49%	51%	100%			

(1) Excludes redevelopment properties and discontinued operations.

(2) Represents office and industrial properties in the Greater Toronto Area as well as four industrial properties in Guelph and London, Ontario.

Office Rental Properties

Dundee REIT owns 102 office properties (123 buildings) comprising approximately 9.1 million square feet, excluding redevelopment properties, located in St. John's, Québec City, Montréal, Ottawa, Toronto, Regina, Saskatoon, Calgary, Edmonton, Yellowknife and Vancouver. Our office properties can generally be categorized as high-quality, yet affordable suburban and downtown buildings. Acquisitions completed in 2006 have added 1.7 million square feet of well occupied office properties to our portfolio. These properties are of high quality and have low maintenance capital expenditure requirements.

The Canadian national office market as a whole has remained relatively unchanged over the previous 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 91.6% (CB Richard Ellis, Canadian Office Market View, 2nd 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.

Industrial Rental Properties

We own 124 prime suburban industrial and prestige industrial properties (141 buildings) comprising approximately 8.1 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 0.5 million square feet of well occupied high-quality industrial properties to our portfolio.

At June 30, 2006, the average occupancy rate across our industrial portfolio was 95.7%, down slightly from 96.2% at December 31, 2005, however, ahead of the national industry average of 94.9% (CB Richard Ellis, Canadian Industrial Market View, 2nd Quarter 2006).

Development and Redevelopment Properties

We are currently partners in two joint ventures to develop office and prestige industrial properties in major Canadian markets. As part of these joint ventures we have the first option to purchase the properties, once they reach a predetermined occupancy requirement, at a discount to the then current market value. In addition, we own 60 acres of commercial development land located mainly in Edmonton.

Four of our properties are currently classified as redevelopment properties. Properties are classified as redevelopment for a period of eighteen months from the date the redevelopment is completed or until the property produces positive cash flow after servicing debt once the redevelopment is completed.

OUR EQUITY

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 B Units, are not transferable separately from these units, and are used to provide voting rights with respect to Dundee REIT to persons holding LP B Units. The LP B Units 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 B Units 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 B Units 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.

Effective May 1, 2006, the terms of the LP B Units were amended to provide that they may not be transferred to a third party, other than a subsidiary of the holder. 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 allows us to treat the outstanding LP B Units as outstanding equity for financial statement purposes in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). As a result, effective May 1, 2006, all LP B Units are presented as equity. Prior to this date, the LP B Units were presented as non-controlling interest.

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 maturity profile/
average term to maturity

Performance Indicators

Performance is measured by these and other key indicators:

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<i>(\$000's except rental rates, unit and per unit amounts)</i>				
Operations				
Occupancy rate (period end) ⁽⁸⁾	95.9%	95.8%		
In-place rent per square foot (office and industrial) ⁽⁸⁾	\$ 9.73	\$ 9.21		
Leasing costs	3,380	2,713	\$ 5,919	\$ 5,337
Net operating income as a % of rental property revenue	58%	56%	57%	55%
Investment				
Acquisition activity	\$ 385,561	\$ 169,829	\$ 416,927	\$ 221,417
Building improvements	2,713	1,317	4,202	2,325
Financing				
Weighted average interest rate (period end)	6.03%	6.24%		
Interest coverage ratio ⁽¹⁾	2.37 times	2.19 times	2.32 times	2.23 times
Debt-to-gross book value	56.7%	60.7%		
Average term to maturity (years)	6.0	5.5		
Operating Results				
Rental properties revenue	\$ 66,051	\$ 52,720	\$ 129,021	\$ 102,839
Net operating income ⁽²⁾ ("NOI")	38,307	29,293	73,210	56,069
Funds from operations ⁽³⁾ ("FFO")	21,929	15,952	41,211	31,310
Distributions				
Distributable income ⁽⁴⁾	\$ 20,499	\$ 14,209	\$ 38,480	\$ 27,893
Reinvestment to distribution ratio ^{(5) (6)}	32.0%	44.4%	33.7%	41.5%
Cash distribution ratio	68.0%	55.6%	66.3%	58.5%
Per unit amounts				
Basic:				
FFO	\$ 0.67	\$ 0.64	\$ 1.34	\$ 1.25
Distributable income	0.63	0.57	1.25	1.12
Distribution rate	0.55	0.55	1.10	1.10
Distributions as a % of distributable income	90.4%	98.7%	90.1%	100.0%
Diluted: ⁽⁷⁾				
FFO	\$ 0.64	\$ 0.60	\$ 1.26	\$ 1.20
Distributable income	0.60	0.54	1.19	1.08
Units outstanding (period end)				
REIT Units, Series A	27,136,213	16,904,915		
LP Class B Units, Series 1	8,825,453	8,278,728		
Total units outstanding	35,961,666	25,183,643		

(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, internalization of property manager, 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 15.

(4) The reconciliation of distributable income to net income can be found on page 16.

(5) These percentages do not include the additional 4% distributions available under the DRIP.

(6) Includes July 15, 2006 reinvestment of distributions declared in June 2006.

(7) Diluted amounts assume the conversion of the 6.5% and 5.7% Debentures.

(8) Excludes redevelopment properties.

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.

EXECUTING THE STRATEGY

Our Resources and Financial Condition

Liquidity and Capital Resources

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.

The following table details the change in cash and cash equivalents:

(\$000's)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Cash generated from operating activities	\$ 23,060	\$ 18,507	\$ 38,290	\$ 29,065
Cash utilized in investing activities	(275,493)	(124,852)	(299,959)	(163,534)
Cash generated from financing activities	253,171	104,792	268,325	122,303
Increase (decrease) in cash and cash equivalents	\$ 738	\$ (1,553)	\$ 6,656	\$ (12,166)

At June 30, 2006, cash and cash equivalents were \$23.2 million, an increase of \$6.7 million compared to December 31, 2005. The increase was a result of the cash flows indicated above, including the impact of acquisitions, new financing activity and equity issues. We have an \$80.0 million revolving credit facility, of which approximately \$79.7 million is available to provide further funding for working capital or as a bridge facility to fund acquisitions.

Cash Generated from Operating Activities

The following table details the cash generated from operating activities:

(\$000's)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Net income (loss)	\$ (6,746)	\$ 3,420	\$ (3,557)	\$ 7,101
Non-cash items:				
Depreciation of rental properties	9,255	6,884	17,825	13,573
Amortization of deferred leasing costs and intangibles	6,527	4,524	12,252	8,302
Amortization of deferred financing costs	425	401	858	697
Amortization of marked-to-market adjustment on acquired debt	(431)	(819)	(862)	(1,169)
Internalization of property manager	13,090	-	13,090	-
Loss (gain) on disposal of rental properties	(3,428)	25	(3,428)	(217)
Deferred unit compensation expense	275	172	540	347
Future income taxes	2,453	183	2,627	375
Amortization of market rent adjustments on acquired leases	(451)	(108)	(607)	(141)
Straight-line rent adjustment	(647)	(874)	(1,486)	(1,945)
Dilution gain	-	(652)	-	(1,325)
Non-controlling interest	527	1,367	1,876	2,818
	20,849	14,523	39,128	28,416
Deferred leasing costs incurred	(3,380)	(2,713)	(5,919)	(5,337)
Change in non-cash working capital	5,591	6,697	5,081	5,986
Cash generated from operating activities	\$ 23,060	\$ 18,507	\$ 38,290	\$ 29,065

The change in cash generated from operations during the three-month period primarily reflects the impact of acquisitions. The variance in the change in non-cash working capital over the prior quarter mainly reflects an increase in amounts receivable as a result of acquisitions.

Operating expenses include 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 June 30, 2006, the deferred amount remaining for recovery in future periods was \$7.0 million (December 31, 2005 – \$7.5 million).

Internalization of Property Manager

In the second quarter, we recognized \$13.5 million of the purchase price for the remaining 50% of the property manager. Of this amount, \$13.1 million was expensed and \$0.4 million was allocated to the net tangible assets acquired. The amount expensed includes \$12.1 million related to the 450,000 LP B Units issued on closing and an additional \$1.0 million expense triggered by the completion of \$220.6 million of acquisitions that were not subject to existing purchase agreements at the effective date of the transaction. The related 35,016 LP B Units will be delivered to DRC on June 30, 2007. The purchase price was based on a price per LP B Unit of \$27.54 (the 5-day weighted average trading price of REIT Units on the TSX, with the midpoint being May 4, 2006, the date the substantive terms of the internalization were publicly announced), net of a discount for implied issuance costs. Greater detail surrounding this transaction is provided on page 14.

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

Performance Indicators	June 30, 2006 ⁽¹⁾	December 31, 2005
<i>Operating Activities</i>		
Occupancy level ⁽¹⁾	95.9%	96.2%
Tenant maturity profile – average term to maturity (years)		
Office	4.6 years	4.8 years
Industrial	4.4 years	4.3 years
In-place rental rates (office and industrial average)	\$ 9.73	\$ 9.36
NOI as a percentage of rental property revenue	58.0%	55.0%

(1) Includes occupied and committed space.

(2) Excludes properties under redevelopment and discontinued operations.

Our tenant maturity profile has remained consistent over a long period of time. The small 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.

Our current average in-place office and industrial rental rates are approximately 18% 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. Occupancy levels and rental rates are discussed under our results of operations beginning on page 17.

Leasing Costs

Leasing costs for the six months increased 11% to \$5.8 million (June 30, 2005 – \$5.3 million) primarily reflecting the growth in our office portfolio and the corresponding increase in related leasing activity.

Performance Indicators	Office ⁽¹⁾	Industrial	Total
<i>Operating Activities</i>			
Portfolio size (sq. ft.)	9,122,214	8,119,886	17,242,100
Occupied and committed	96.1%	95.7%	95.9%
Square footage leased and occupied in 2006	402,700	854,811	1,257,511
Leasing costs (\$000's)	\$ 4,249	\$ 1,536	\$ 5,785
Leasing costs (per sq. ft.)	\$ 10.55	\$ 1.80	\$ 4.60

(1) Excludes redevelopment properties.

To better reflect the change in size of our portfolio and mix of our assets we have revised our estimates of expected leasing activity and leasing costs over a twelve-month period commencing July 1, 2006:

	Office	Industrial
Estimated average annual leasing activity (sq. ft.)	1,010,000	1,530,000
Average leasing costs (per sq. ft.)	\$ 9.50	\$ 2.50
Expected average annual leasing costs (\$000's)	\$ 9,600	\$ 3,800

Based on leasing activity that occurred in the first six months combined with our revised estimate on a go-forward basis we anticipate our annual leasing costs will be approximately \$12.5 million for office and industrial properties.

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.

Cash Utilized in Investing Activities

The following table details our cash utilized in investing activities:

(\$000's)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Investment in rental properties	\$ (1,662)	\$ (1,135)	\$ (3,769)	\$ (2,405)
Investment in land	(292)	-	(292)	-
Acquisition of rental properties and land	(297,109)	(129,456)	(318,599)	(170,411)
Acquisition deposit on rental properties	600	170	(600)	(675)
Investment in mezzanine loan	(2,235)	(150)	(2,235)	(750)
Net proceeds from disposal of rental properties	25,337	(25)	25,337	2,254
Change in restricted cash, net	(132)	5,744	199	8,453
Cash utilized in investing activities	\$ (275,493)	\$ (124,852)	\$ (299,959)	\$ (163,534)

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

Performance Indicators (\$000's)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<i>Investing Activities</i>				
Acquisition of rental properties	\$ 385,561	\$ 169,829	\$ 416,927	\$ 221,417
Building improvements	\$ 2,713	\$ 1,317	\$ 4,202	\$ 2,325

Acquisitions and Dispositions

During the quarter, we acquired \$385.6 million of rental properties, land and related intangible assets funded by \$297.1 million in cash and \$85.1 million of assumed mortgages. A summary of these acquisitions is provided on page 25. Acquisitions completed during 2005 and 2006 have increased net operating income by approximately \$8.1 million compared to 2005.

During the quarter we sold Kameyosek Shopping Centre in Edmonton for net proceeds of \$8.4 million and a 50% interest in Greenbriar Mall in Atlanta for net proceeds of \$17.0 million. Greater detail on these dispositions is provided on page 26.

Building Improvements

(\$000's)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Building improvements:				
Recurring recoverable	\$ 1,535	\$ 281	\$ 2,041	\$ 511
Recurring non-recoverable	28	9	98	9
Non-recurring	1,150	1,027	2,063	1,805
Total	\$ 2,713	\$ 1,317	\$ 4,202	\$ 2,325

For the three-month period, capital expenditures or expenditures accrued for rental property building improvements and equipment were \$2.7 million (June 30, 2005 – \$1.3 million). Recurring recoverable costs included \$1.5 million incurred in the quarter for various roof and chiller repairs. Non-recurring costs in the quarter included \$1.2 million of construction costs for a build-to-suit property completed for a tenant as well as capitalized carrying costs for a property under redevelopment. The build-to-suit property is located in suburban Edmonton, comprises 29,000 square feet and the tenant took occupancy in May, 2006.

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 \$6.2 million and will be incurred over the next two years.

Development and Redevelopment Activities

A key component of our strategy is to grow our portfolio. Joint venture development activities where we provide mezzanine financing offer prudent opportunities for us to expand our portfolio while mitigating development and leasing risks.

Our mezzanine loan investment with respect to the Airport Corporate Centre West (“ACCW”) project in Toronto remains at \$11.2 million plus accrued interest of \$1.6 million. This loan is to assist in the development and leasing of 345,000 square feet of office properties adjacent to other properties we own. We have an option that allows us to purchase the properties at a discount to market value once they meet an 85% occupancy requirement. Occupancy currently stands at 78% and we anticipate acquiring these properties in the second half of 2006.

On May 26, 2006, we entered into a joint venture agreement with a development partner to acquire land and develop office and prestige industrial properties in our target markets. We have a 60% ownership interest in the joint venture. As part of the agreement, we have the first option to acquire the completed properties, other than those constructed on a build-to-suit basis for third parties, at a discount to the then current market value, once they reach a predetermined occupancy requirement. As part of the agreement, we are to provide mezzanine financing equal to 90% of any funding requirement, up to a maximum of \$45.0 million, not otherwise provided by third-party lenders. We are also required to guarantee, when necessary, 90% of financing obtained from third parties. On June 7, 2006, we funded an initial investment of \$5.5 million and provided a guarantee on \$8.3 million of third-party financing for the purchase of a 77 acre site in suburban Toronto that we expect will yield about 40 acres of developable lands.

The acquisition of the Princeton Portfolio on May 16, 2006, included approximately 60 acres of commercial land in Western Canada for which we paid \$18.9 million. Included in this total are approximately 50 acres of serviced commercial land in the Sunwapta Business Park in Edmonton. We intend to develop 39 of the 50 acres that are zoned for office and industrial and sell the remaining 11 acres that are zoned for retail. The remaining 10 acres are mainly located in Yellowknife and will be held for future development.

Cash Generated from Financing Activities

We finance the ownership of our assets using equity as well as utilizing conventional mortgage financing, term debt, floating rate credit facilities and convertible debentures. Our debt strategy includes staggering our maturity schedule to help mitigate interest rate risk and limit exposure in any given year, as well as fixing the rates and extending loan terms as long as possible when interest rates are favourable.

The following table details our cash generated from financing activities:

(\$000's)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Mortgages placed, net of costs	\$ 117,006	\$ 53,050	\$ 160,340	\$ 57,050
Mortgage principal repayments	(6,058)	(4,122)	(11,588)	(8,146)
Mortgage lump sum repayments	-	(37,553)	(12,926)	(39,698)
Term debt principal repayments	(115)	(116)	(214)	(239)
Term debt lump sum repayments	(14,957)	-	(14,957)	(2,075)
Term debt placed, net of costs	5,892	-	5,892	-
Convertible debentures issued, net of costs	-	95,668	-	95,668
Demand revolving credit facility, net	-	8,978	-	42,239
Demand non-revolving credit facility	-	(3,092)	-	(6,107)
Distributions paid on REIT Units, Series A	(11,253)	(8,027)	(21,090)	(16,391)
Units issued, net of costs	162,656	6	162,868	2
Cash generated from financing activities	\$ 253,171	\$ 104,792	\$ 268,325	\$ 122,303

Debt-to-Gross-Book Value

Our Declaration of Trust limits our overall debt to 65% of debt-to-gross book value. Given the high level of convertible debt in our structure, we are comfortable operating in the range between 57% and 63% of debt-to-gross book value.

(\$000's)	June 30, 2006
Total assets	\$ 1,927,945
Accumulated depreciation	100,560
Accumulated amortization of acquired intangibles and leasing costs	22,026
Gross book value	\$ 2,050,531
Outstanding debt	\$ 1,161,923
Unamortized discount component of convertible debentures	1,492
Total debt	\$ 1,163,415
Debt-to-gross book value	56.7%

At June 30, 2006, debt-to-gross book value decreased to 56.7% (December 31, 2005 – 59.3%) mainly as a result of funding \$416.9 million of acquisitions with the proceeds of equity offerings totalling \$170.0 million, and the net proceeds from dispositions totalling \$25.3 million. We consider our convertible debentures to be debt and treat them as such when computing our debt ratios. Assuming the conversion of all of the 6.5% and 5.7% Debentures, our debt-to-gross book value would decrease to 48.5%. Commencing January 1, 2006, 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.

Debt

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

	June 30, 2006	December 31, 2005
<i>Financing Activities</i>		
Average interest rate	6.03%	6.16%
Level of debt (debt-to-gross book value)	56.7%	59.3%
Interest coverage ratio	2.37 times	2.19 times
Proportion of total debt due in 2006	4.5%	7.2%
Debt – average term to maturity (years)	6.0	5.9
Variable rate debt as percentage of total debt	2.1%	1.6%

Our proportion of total debt due in 2006 decreased to 4.5% mainly due to refinancing. Our variable rate debt as a percentage of total debt increased as a result of new mortgage financing at Greenbriar Mall as well as financing related to our new joint venture.

(\$000's)	June 30, 2006			December 31, 2005		
	Fixed	Variable	Total	Fixed	Variable	Total
Mortgages	\$ 969,378	\$ 18,565	\$ 987,943	\$ 756,920	\$ –	\$ 756,920
Term debt	745	5,526	6,271	271	15,062	15,333
Debenture – 6.5%	68,808	–	68,808	72,478	–	72,478
Debenture – 5.7%	98,901	–	98,901	98,890	–	98,890
Total	\$ 1,137,832	\$ 24,091	\$ 1,161,923	\$ 928,559	\$ 15,062	\$ 943,621
Percentage	97.9%	2.1%	100%	98.4%	1.6%	100%

Mortgages payable include a \$10.4 million marked-to-market adjustment (December 31, 2005 – \$8.5 million) reflecting the fair value of mortgages assumed in connection with acquisitions. The marked-to-market adjustment and discount are amortized to interest expense over the term to maturity of the related debt. Since December 31, 2005, \$3.8 million of debentures have been converted. Amounts recorded as at June 30, 2006 for the 6.5% and 5.7% Debentures are net of the \$1.5 million premiums allocated to their conversion features.

Financing Activity

Year-to-date, we have secured approximately \$161.8 million in new mortgage financing for an average term of 8.7 years at an average interest rate of 5.7%. As a result, our overall average interest rate decreased to 6.03%.

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

(\$000's)	Mortgages	Term Debt	Revolving Credit Facility	Convertible Debentures	Total
Debt as at December 31, 2005	\$ 756,920	\$ 15,333	\$ –	\$ 171,368	\$ 943,621
New debt assumed on rental property acquisitions	94,409	217	–	–	94,625
New debt placed	161,845	5,892	29,295	–	197,032
Scheduled repayments	(11,588)	(214)	–	–	(11,802)
Lump sum repayments	(12,926)	(14,957)	(29,295)	–	(57,178)
Conversion to unit equity	–	–	–	(3,773)	(3,773)
Marked-to-market and other adjustments	(717)	–	–	114	(602)
Debt as at June 30, 2006	\$ 987,943	\$ 6,271	\$ –	\$ 167,709	\$ 1,161,923

In connection with acquisitions completed during the quarter, we assumed mortgages totalling \$85.1 million with an average term to maturity at June 30, 2006 of 6.2 years and a weighted average interest rate of 5.86%. We also placed \$118.3 million in new mortgage financing with an average term to maturity of 8.7 years and a weighted average interest rate of 5.67%. Included in new mortgage financing is an \$18.3 million non-recourse mortgage on our 50% interest in Greenbriar Mall. We also repaid \$15.0 million of term debt with a rate of 6.7%.

(\$000's)	June 30, 2006				Weighted interest rates %	December 31, 2005
	Debt Maturities	Scheduled Principal Repayments on Non-matured Debt	Amount	%		
Remainder of 2006	\$ 37,385	\$ 14,744	\$ 52,130	5	6.44	\$ 67,801
2007	16,800	29,390	46,190	4	6.30	53,582
2008	109,050	29,082	138,132	12	6.45	111,186
2009	117,472	25,058	142,530	12	6.47	131,354
2010	38,629	22,248	60,877	5	4.84	53,516
2011 and thereafter	666,521	55,544	722,064	62	5.91	526,182
Total	\$ 985,857	\$ 176,066	\$ 1,161,923	100	6.03	\$ 943,621

Convertible Debentures

During the six months ended June 30, 2006, we issued 150,593 Units upon the conversion of \$3.8 million of the principal amount of 6.5% Debentures and 5.7% Debentures. As at June 30, 2006, we had outstanding approximately \$69.3 million aggregate principal amount of 6.5% Debentures, convertible into 2,770,000 Units, and \$100.0 million aggregate principal amount of 5.7% Debentures, convertible into 3,331,700 Units.

Public Offering of Units

On April 7, 2006, we completed a public offering of 2,200,000 Units for gross cash proceeds of \$61.0 million at a price of \$27.75 per Unit. On April 28, 2006, we issued an additional 320,000 Units 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 were \$3.2 million and were charged directly to Unitholders' equity.

On June 8, 2006, we completed a public offering of 3,560,000 Units for gross cash proceeds of \$100.0 million at a price of \$28.10 per Unit. Costs relating to the offering were \$4.4 million and were charged directly to Unitholders' equity.

Internalization of Property Manager

On May 12, 2006, through our subsidiary Dundee Properties Limited Partnership ("DPLP"), we acquired Dundee Realty Corporation's ("DRC") 50% interest in Dundee Management Limited Partnership ("DMLP"), the entity which provides us with property management and real estate advisory services. The transaction was effective May 1, 2006 and increased our ownership of DMLP to 100%. The purchase price was approximately \$13.5 million, which amount may increase contingent upon reaching acquisition objectives outlined below. The consideration for the acquisition will be satisfied through the issuance of:

- a) 450,000 LP B Units that were delivered on closing; and
- b) up to 100,000 LP B Units, which amount may include up to a maximum of 8,000 REIT Units, Series A, to be delivered on June 30, 2007 based on the aggregate purchase price of properties acquired by DPLP between April 1, 2006 and June 30, 2007, other than properties that were subject to existing purchase commitments, as follows:
 - (i) if the aggregate purchase price is less than \$315.0 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.

In conjunction with the transaction, DMLP and DRC 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.

Market Capitalization

Between the equity issues and the appreciation in our stock price, our market capitalization is now in excess of \$1 billion – an important milestone for Dundee REIT.

MARKET CAPITALIZATION

> \$1 BILLION

Equity

The following table summarizes the changes in our outstanding equity:

	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 public offerings	6,080,000	–	6,080,000
Units issued pursuant to internalization of property manager	–	485,016	485,016
Units issued pursuant to DRIP	443,830	3,072	446,902
Units issued pursuant to unit purchase plan	12,581	–	12,581
Conversion of 6.5% Debentures	148,960	–	148,960
Conversion of 5.7% Debentures	1,633	–	1,633
Total units outstanding on June 30, 2006	27,136,213	8,825,453	35,961,666
Percentage of all units	75%	25%	100%
Units issued pursuant to DRIP on July 15, 2006	68,712	3,017	71,729
Conversion of 6.5% Debentures	99,000	–	99,000
Total units outstanding on July 31, 2006	27,303,925	8,828,470	36,132,395
Percentage of all units	76%	24%	

Funds from Operations

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.

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<i>(\$000's except per unit amounts)</i>				
Net Income (Loss)	\$ (6,746)	\$ 3,420	\$ (3,557)	\$ 7,101
Add (deduct):				
Depreciation of rental properties	9,255	6,884	17,825	13,573
Amortization of deferred leasing costs and intangibles	6,527	4,524	12,252	8,302
Imputed amortization of leasing costs related to the rent supplement	289	204	545	690
Internalization of property manager	13,090	–	13,090	–
Loss (gain) on disposal of rental properties	(3,453)	25	(3,428)	(217)
Future income tax	2,453	183	2,627	375
Amortization of costs not specific to real estate operations				
incurred subsequent to June 30, 2003	(13)	(3)	(19)	(7)
Dilution gain	–	(652)	–	(1,325)
Non-controlling interest	527	1,367	1,876	2,818
FFO	\$ 21,929	\$ 15,952	\$ 41,211	\$ 31,310
FFO per unit – basic	\$ 0.67	\$ 0.64	\$ 1.34	\$ 1.25
FFO per unit – diluted	\$ 0.64	\$ 0.60	\$ 1.26	\$ 1.20

FFO per unit increased 5% over the comparative quarter primarily due to additional revenue generated by acquisitions as well as growth in occupancy and some increase in rental rates. 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% and 5.7% Debentures. For the quarter, the weighted average number of units outstanding for basic and diluted FFO calculations are 32,727,091 and 38,953,240, respectively. Diluted FFO includes interest and amortization adjustments of \$2.8 million. Year-to-date, the weighted average number of units outstanding for basic and diluted FFO calculations are 30,858,039 and 37,132,836, respectively. Diluted FFO includes interest and amortization adjustments of \$5.6 million.

Distributable Income

(\$000's except per unit amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Net Income (Loss)	\$ (6,746)	\$ 3,420	\$ (3,557)	\$ 7,101
Add (deduct):				
Depreciation of rental properties	9,255	6,884	17,825	13,573
Amortization of deferred leasing costs and intangibles	6,527	4,524	12,252	8,302
Future income tax	2,453	183	2,627	375
Amortization of marked-to-market adjustment on acquired debt	(431)	(819)	(862)	(1,169)
Compensation expense, deferred unit incentive plan	275	172	540	347
Internalization of property manager	13,090	–	13,090	–
Loss (gain) on disposal of rental property	(3,453)	25	(3,428)	(217)
Straight-line rent	(647)	(874)	(1,486)	(1,945)
Amortization of costs not specific to real estate operations				
incurred subsequent to June 30, 2003	(13)	(3)	(19)	(7)
Amortization of non-recoverable deferred costs				
incurred prior to June 30, 2003	19	3	41	7
Amortization of deferred financing costs incurred prior to June 30, 2003	94	87	188	174
Amortization of market rent adjustments on acquired leases	(451)	(108)	(607)	(141)
Dilution gain	–	(652)	–	(1,325)
Non-controlling interest	527	1,367	1,876	2,818
Distributable income	\$ 20,499	\$ 14,209	\$ 38,480	\$ 27,893
Distributable income per unit – basic	\$ 0.63	\$ 0.57	\$ 1.25	\$ 1.12
Distributable income per unit – diluted	\$ 0.60	\$ 0.54	\$ 1.19	\$ 1.08

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. On August 4, 2006, the Canadian Securities Administrators (the “CSA”) issued CSA Staff Notice 52-306 (Revised) – Non-GAAP Financial Measures (the “Notice”). The Notice provides that in the view of CSA staff, all distributable cash presentations should begin with cash flows from operating activities. We are presently reviewing the Notice and considering the impact it may have with respect to our presentation of distributable income. We intend to make any changes that are necessary to comply with the Notice in future filings.

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 B Units. Cash distributions were only paid to holders of REIT Units, Series A as all of the LP B Units are enrolled in the DRIP.

(\$000's)	Declared Distributions	4% Additional Distributions	Total
2006 Distributions			
Paid in cash or reinvestment in units	\$ 27,625	\$ 383	\$ 28,008
Payable at June 30, 2006	6,574	79	6,653
Total distributions	\$ 34,199	\$ 462	\$ 34,661
2006 Reinvestment			
Reinvested to June 30, 2006	\$ 9,563	\$ 383	\$ 9,946
Reinvested on July 15, 2006	1,971	79	2,050
Total distributions reinvested	\$ 11,534	\$ 462	\$ 11,996
Distributions paid in cash	\$ 22,665		
Reinvestment to distribution ratio		33.7%	
Cash distribution payout ratio		66.3%	

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 six months ended June 30, 2006 totalled \$34.2 million or 89% of distributable income, an increase of \$6.8 million over the comparative period. Of this amount, \$11.5 million or 33.7% was reinvested in additional units. The increase in declared distributions arises from an incremental increase in units generated through the DRIP, Units issued as part of public offerings completed in April and June, 2006, as well as Units issued on the conversion of debentures. As a result of the high level of participation in the DRIP, our cash payout ratio for our distributions is 66.3%.

In the first half of 2006, we declared \$9.7 million in distributions on LP B Units, which was satisfied by the issuance of 342,135 REIT Units, Series A and 6,089 LP Class B Units, Series 1.

Our Results of Operations

(\$000's)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Revenues				
Rental properties revenue	\$ 66,051	\$ 52,720	\$ 129,021	\$ 102,839
Interest and fee income	852	619	1,351	1,337
	66,903	53,339	130,372	104,176
Expenses				
Rental properties operating expenses	27,744	23,427	55,811	46,770
Interest	15,833	13,215	30,811	24,881
Depreciation of rental properties	9,227	6,800	17,767	13,404
Amortization of deferred leasing costs and intangibles	6,513	4,405	12,223	8,035
General and administrative	1,755	1,245	3,263	2,406
	61,072	49,092	119,875	95,496
Income Before the Undernoted Items	5,831	4,247	10,497	8,680
Internalization of property manager	(13,090)	–	(13,090)	–
Gain on disposal of rental property	216	–	216	–
Dilution gain	–	652	–	1,325
Income (loss) before income and large corporations taxes	(7,043)	4,899	(2,377)	10,005
Income Taxes				
Current income and large corporations taxes	76	41	121	88
Future income taxes	2,453	183	2,627	375
	2,529	224	2,748	463
Income (loss) before non-controlling interest and discontinued operations	(9,572)	4,675	(5,125)	9,542
Income attributable to non-controlling interest	(517)	(1,330)	(1,840)	(2,696)
Income (loss) before discontinued operations	(10,089)	3,345	(6,965)	6,846
Discontinued operations	3,343	75	3,408	255
Net income (loss)	\$ (6,746)	\$ 3,420	\$ (3,557)	\$ 7,101

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 acquisitions as well as receiving 100% of the fees earned by the property manager.

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 \$4.3 million or 18% increase in operating expenses compared to the prior quarter 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 6.03% compared with 6.24% at June 30, 2005.

Depreciation of Rental Properties

Depreciation increased by \$2.4 million or 36% compared with the same quarter in 2005 mainly as a result of acquisitions.

Amortization of Deferred Leasing Costs and Intangibles

Amortization increased by \$2.1 million or 48% 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 \$1.8 million, an increase of \$0.5 million over the comparative period reflecting the growth of our business.

Dilution Gain

The dilution gain in 2005 resulted from the additional LP B Units issued pursuant to the DRIP, which caused the dilution of our ownership of Dundee Properties L.P. As of August 2005, the holders of LP B Units have elected to reinvest their distributions in REIT Units, Series A, and as a result our ownership is no longer being diluted. Effective May 1, 2006, as a result of the reclassification of the LP B Units, REIT Units, Series A are no longer 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. During the quarter we recognized \$2.4 million of future tax expenses related to the sale of a 50% interest in Greenbriar Mall.

Income Attributable to Non-Controlling Interest

Approximately \$0.5 million of income from operations during the quarter was allocated to the holders of LP B Units prior to the reclassification of such units to unitholders' equity on May 1, 2006.

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. Kameyosek Shopping Centre was the only asset categorized as discontinued in the current quarter. 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”)

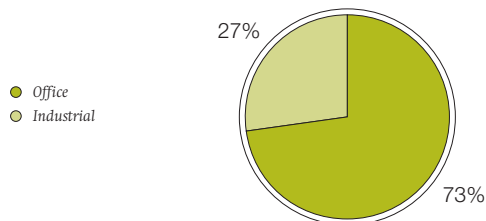
Net operating income is an important measure used by management to evaluate the operating performance of the properties. We define NOI as the total of rental property revenues less rental property operating expenses. NOI for the quarter increased 32% over the comparative period, primarily due to income from properties acquired in 2005 and 2006.

(\$000's)	Three Months Ended June 30				Six Months Ended June 30			
	2006	2005	Growth		2006	2005	Growth	
			Amount	%			Amount	%
Office	\$ 27,243	\$ 19,959	\$ 7,284	36	\$ 51,601	\$ 38,248	\$ 13,353	35
Industrial	10,113	8,347	1,766	21	19,620	15,817	3,803	24
NOI	37,356	28,306	9,050	32	71,221	54,065	17,156	32
Redevelopment	951	987	(36)		1,989	2,004	(15)	
Discontinued operations	159	409	(250)		319	740	(421)	
NOI including redevelopment and discontinued operations	\$ 38,466	\$ 29,702	\$ 8,764	30	\$ 73,529	\$ 56,809	\$ 16,720	29

(\$000's)	Three Months Ended June 30				Six Months Ended June 30			
	2006	2005	Growth		2006	2005	Growth	
			Amount	%			Amount	%
Québec	\$ 8,511	\$ 6,650	\$ 1,861	28	\$ 16,742	\$ 12,249	\$ 4,493	37
National Capital Region	6,010	3,849	2,161	56	11,764	7,349	4,415	60
Toronto Region	11,524	9,998	1,526	15	22,689	18,987	3,702	19
Alberta	8,351	6,492	1,859	29	15,714	12,845	2,869	22
Western Canada	2,960	1,317	1,643	125	4,312	2,635	1,677	64
NOI	37,356	28,306	9,050	32	71,221	54,065	17,156	32
Redevelopment	951	987	(36)		1,989	2,004	(15)	
Discontinued operations	159	409	(250)		319	740	(421)	
NOI including redevelopment and discontinued operations	\$ 38,466	\$ 29,702	\$ 8,764	30	\$ 73,529	\$ 56,809	\$ 16,720	29

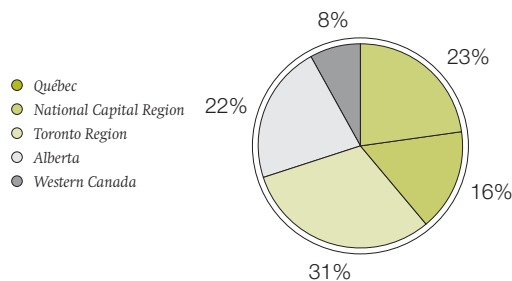
NOI by Segment

(Three months ended June 30, 2006)



NOI by Region

(Three months ended June 30, 2006)



NOI Comparative Portfolio

NOI shown below 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 that relate to straight-line rents and amortization of market rent adjustments on acquired leases.

(\$000's)	Three Months Ended June 30				Six Months Ended June 30			
	2006	2005	Growth		2006	2005	Growth	
			Amount	%			Amount	%
Office	\$ 18,039	\$ 17,001	\$ 1,038	6	\$ 35,854	\$ 33,550	\$ 2,304	7
Industrial	7,085	7,068	17	-	14,141	13,951	190	1
Comparative properties	25,124	24,069	1,055	4	49,995	47,501	2,494	5
Redevelopment	932	970	(38)		1,959	1,969	(10)	
Acquisitions	10,756	2,627	8,129		18,314	3,185	15,129	
Rent supplement	398	641	(243)		863	1,328	(465)	
GAAP adjustments	1,097	986	111		2,079	2,086	(7)	
NOI	38,307	29,293	9,014	31	73,210	56,069	17,141	31
Discontinued operations	159	409	(250)		319	740	(421)	
NOI including discontinued operations	\$ 38,466	\$ 29,702	\$ 8,764	30	\$ 73,529	\$ 56,809	\$ 16,720	29

(\$000's)	Three Months Ended June 30				Six Months Ended June 30			
	2006	2005	Growth		2006	2005	Growth	
			Amount	%			Amount	%
Québec	\$ 5,101	\$ 5,006	\$ 95	2	\$ 10,212	\$ 10,006	\$ 206	2
National Capital Region	3,606	3,369	237	7	7,087	6,635	452	7
Toronto Region	8,345	8,410	(65)	(1)	16,848	16,378	470	3
Alberta	6,717	6,014	703	12	13,139	11,887	1,252	11
Western Canada	1,355	1,270	85	7	2,709	2,595	114	4
Comparative properties	25,124	24,069	1,055	4	49,995	47,501	2,494	5
Redevelopment	932	970	(38)		1,959	1,969	(10)	
Acquisitions	10,756	2,627	8,129		18,314	3,185	15,129	
Rent supplement	398	641	(243)		863	1,328	(465)	
GAAP adjustments	1,097	986	111		2,079	2,086	(7)	
NOI	38,307	29,293	9,014	31	73,210	56,069	17,141	31
Discontinued operations	159	409	(250)		319	740	(421)	
NOI including discontinued operations	\$ 38,466	\$ 29,702	\$ 8,764	30	\$ 73,529	\$ 56,809	\$ 16,720	29

The increase in comparative NOI is driven by strong performance by our office portfolio nationally, primarily reflecting occupancy growth as well as some improvement in rental rates, particularly in Alberta. 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 \$0.4 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 three years for industrial space. The rent supplement decreased in the quarter as a result of leasing activity in supplemented office and industrial space.

Comparative Office Portfolio

(\$000's)	Three Months Ended June 30				Six Months Ended June 30			
	2006	2005	Growth		2006	2005	Growth	
			Amount	%			Amount	%
Québec	\$ 2,851	\$ 2,664	\$ 187	7	\$ 5,682	\$ 5,376	\$ 306	6
National Capital Region	3,606	3,369	237	7	7,087	6,635	452	7
Toronto Region	6,359	6,335	24	-	12,929	12,329	600	5
Alberta	3,868	3,363	505	15	7,447	6,615	832	13
Western Canada	1,355	1,270	85	7	2,709	2,595	114	4
Comparative properties	18,039	17,001	1,038	6	35,854	33,550	2,304	7
Redevelopment	932	970	(38)		1,959	1,969	(10)	
Acquisitions	8,289	1,742	6,547		13,792	2,159	11,633	
Rent supplement	210	446	(236)		503	921	(418)	
GAAP adjustments	724	792	(68)		1,482	1,664	(182)	
Office NOI	28,194	20,951	7,243	35	53,590	40,263	13,327	33
Discontinued operations	159	408	(249)		319	738	(419)	
NOI including discontinued operations	\$ 28,353	\$ 21,359	\$ 6,994	33	\$ 53,909	\$ 41,001	\$ 12,908	31

Our comparative office portfolio remains well occupied with the National Capital Region, Alberta and Western Canada portfolios offering less than 2% vacancy. Growth in comparative NOI from the office portfolio is largely a result of improved occupancy. Results in the quarter include a \$0.3 million lease surrender payment received in Alberta, offset by a \$0.1 million expense related to a prior year tenant recovery in Toronto. Total NOI grew by \$7.3 million and \$13.3 million in the respective three- and six-month periods fuelled by the contribution from acquisitions.

Comparative Industrial Portfolio

(\$000's)	Three Months Ended June 30				Six Months Ended June 30			
	2006	2005	Growth		2006	2005	Growth	
			Amount	%			Amount	%
Québec	\$ 2,250	\$ 2,342	\$ (92)	(4)	\$ 4,530	\$ 4,630	\$ (100)	(2)
Toronto Region	1,986	2,075	(89)	(4)	3,919	4,049	(130)	(3)
Alberta	2,849	2,651	198	7	5,692	5,272	420	8
Comparative properties	7,085	7,068	17	-	14,141	13,951	190	1
Acquisitions	2,467	885	1,582		4,522	1,026	3,496	
Rent supplement	188	195	(7)		360	407	(47)	
GAAP adjustments	373	194	179		597	422	175	
Industrial NOI	10,113	8,342	1,771	21	19,620	15,806	3,814	24
Discontinued operations	-	1	(1)		-	2	(2)	
NOI including discontinued operations	\$ 10,113	\$ 8,343	\$ 1,770	21	\$ 19,620	\$ 15,808	\$ 3,812	24

Comparative property performance was flat for both the three- and six-month periods. Strong occupancy driven results in Alberta offset slightly weaker results in the balance of our portfolio. Total NOI improved \$1.8 million and \$3.8 million in the respective three- and six-month periods, again, fuelled by the contribution from acquisitions. Effective July 1, 2006, the rent supplement for industrial space expired. During the second quarter, the industrial rent supplement represented approximately \$0.2 million or 1.9% of industrial NOI.

NOI Prior Quarter Comparison

Overall, the comparative properties are maintaining a high level of occupancy and producing consistent NOI. Total NOI growth of 10% quarter-over-quarter largely reflects the impact of acquisitions as well as the booming Alberta market.

(\$000's)	Three Months Ended		Growth	
	June 30, 2006	March 31, 2006	Amount	%
Office	\$ 18,039	\$ 17,657	\$ 382	2
Industrial	7,085	7,208	(123)	(2)
Comparative properties	25,124	24,865	259	1
Redevelopment	932	1,031	(99)	
Acquisitions	10,756	7,559	3,197	
Rent supplement	398	465	(67)	
GAAP adjustments	1,097	994	103	
NOI	38,307	34,914	3,393	10
Discontinued operations	159	160	(1)	
NOI including discontinued operations	\$ 38,466	\$ 35,074	\$ 3,392	10

(\$000's)	Three Months Ended		Growth	
	June 30, 2006	March 31, 2006	Amount	%
Québec	\$ 5,101	\$ 5,111	\$ (10)	-
National Capital Region	3,606	3,481	125	4
Toronto Region	8,345	8,499	(154)	(2)
Alberta	6,717	6,420	297	5
Western Canada	1,355	1,354	1	-
Comparative properties	25,124	24,865	259	1
Redevelopment	932	1,031	(99)	
Acquisitions	10,756	7,559	3,197	
Rent supplement	398	465	(67)	
GAAP adjustments	1,097	994	103	
NOI	38,307	34,914	3,393	10
Discontinued operations	159	160	(1)	
NOI including discontinued operations	\$ 38,466	\$ 35,074	\$ 3,392	10

Strong performance by the office portfolio, driven by occupancy growth and some increases in rental rates, particularly in Alberta, generated a 5% increase in our comparative NOI for the first six months of 2006.

6 MONTH COMPARATIVE NOI

^5%

Leasing Profile

The overall percentage of occupied and committed space across our rental properties portfolio was 95.9% at quarter end. Both our average office and industrial portfolio occupancy rates are currently above the national industry averages of 91.6% and 94.9%, respectively (CB Richard Ellis, Canadian Office and Industrial Market Views, 2nd Quarter, 2006). Occupancy rates discussed in this report include occupied and committed space at June 30, 2006 and exclude space to which the rent supplement is applied.

	Total Portfolio		Comparative Properties	
	June 30, 2006 ⁽¹⁾	December 31, 2005	June 30, 2006 ⁽¹⁾	December 31, 2005
Office				
Québec	91.2%	90.7%	90.5%	90.7%
National Capital Region	98.6%	99.1%	98.6%	99.1%
Toronto Region	96.9%	96.2%	96.9%	96.2%
Alberta	97.9%	99.3%	98.9%	99.3%
Western Canada	95.2%	99.1%	99.1%	99.1%
Total office	96.1%	96.3%	96.3%	96.3%
Industrial ⁽¹⁾				
Québec	93.5%	94.8%	93.4%	94.8%
Toronto Region	97.0%	96.5%	96.6%	96.5%
Alberta	97.6%	98.0%	97.8%	98.0%
Total industrial	95.7%	96.2%	95.6%	96.2%
Overall	95.9%	96.3%	95.9%	96.3%

(1) Excludes redevelopment properties.

The overall occupancy in our portfolio has softened slightly to 95.9%. 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 June 30, 2006:

(square feet)	Office	Industrial	Total
Vacant space available – January 1, 2006	277,203	289,668	566,871
Remeasurements	(2,254)	(48)	(2,302)
Acquisitions	79,241	9,310	88,551
Leases terminated/expiring	410,487	950,411	1,360,898
Total space available for lease	764,677	1,249,341	2,014,018
New tenants	145,451	363,045	508,496
Renewals	265,125	541,120	806,245
Total space leased	410,576	904,165	1,314,741
Total space available for lease – June 30, 2006	354,101	345,176	699,277
Net (increase) in vacant space	(76,898)	(55,508)	(132,406)

The above table shows a net increase in vacant space of 132,406 square feet resulting from 1.4 million square feet of lease expiries or terminations, .09 million square feet of acquired vacancy, offset by 1.3 million square feet of new leasing and renewals. In general, we experienced healthy leasing activity across our portfolio offset by the impact of some lease expiries in the Québec industrial portfolio and vacancies in acquired properties, primarily in Calgary and Saskatoon. Given the strength of the Calgary market we anticipate this space will be leased in the short term. The volume of leasing is consistent with our expectations.

Lease maturity profile as at June 30, 2006 by asset type:

(square feet)	Current Vacancy	Current Monthly Tenancies	2006	2007	2008	2009	2010 and thereafter	Total
Office	354,101	78,717	400,992	1,024,050	750,936	1,479,025	5,034,393	9,122,214
Industrial	345,176	82,034	585,607	1,392,988	1,255,440	1,161,885	3,296,756	8,119,886
Total	699,277	160,751	986,599	2,417,038	2,006,376	2,640,910	8,331,149	17,242,100
Percentage	4.1%	0.9%	5.7%	14.0%	11.6%	15.3%	48.3%	100.0%

(1) Excludes redevelopment properties.

The following table provides average expiring rents across our portfolio as well as an estimate of average expiring market rents at June 30, 2006:

	Current Monthly Tenancies	2006	2007	2008	2009	2010 and thereafter
Office	\$ 13.58	\$ 13.19	\$ 11.88	\$ 12.48	\$ 12.71	\$ 14.35
Industrial	4.46	4.85	4.94	4.81	4.98	6.12
Portfolio Average	\$ 8.93	\$ 8.24	\$ 7.88	\$ 7.68	\$ 9.31	\$ 11.09

Market Rents ⁽¹⁾

Office	\$ 15.17	\$ 17.60	\$ 14.91	\$ 15.12	\$ 14.63	\$ 17.33
Industrial	4.93	5.03	5.05	5.03	5.11	6.18
Market Rent Average	\$ 9.95	\$ 10.11	\$ 9.23	\$ 8.81	\$ 10.44	\$ 12.92

(1) Estimate only, based on current market rents with no allowance for increases in future years and subject to change with market conditions in each market segment.

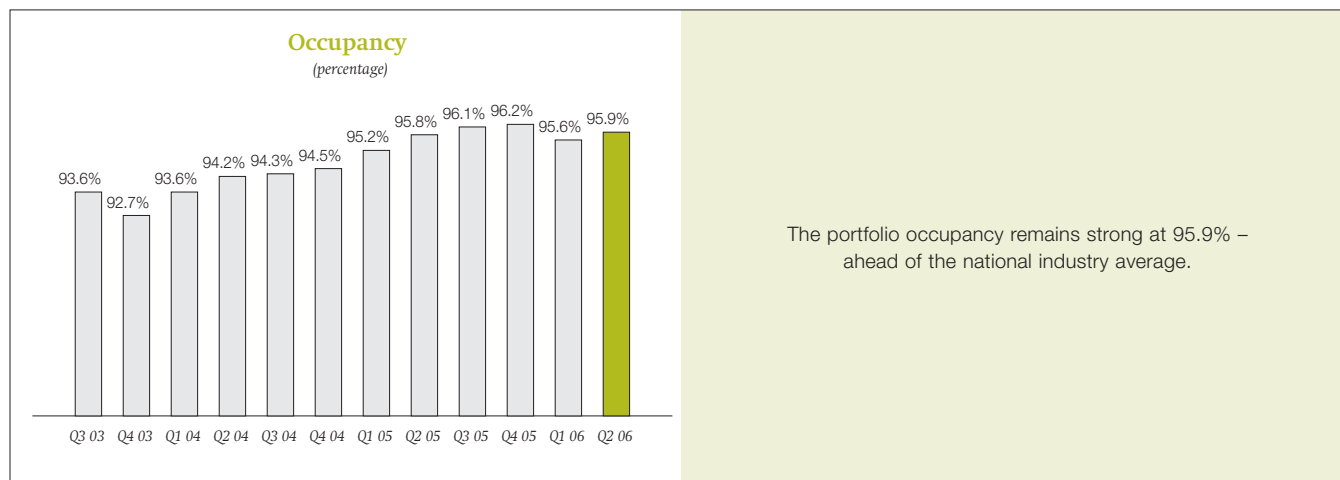
Average remaining lease term and other portfolio information:

	June 30, 2006 ⁽¹⁾			December 31, 2005 ⁽¹⁾		
	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	4.55	8,503	\$ 13.56	4.78	9,405	\$ 13.58
Industrial	4.42	12,695	\$ 5.41	4.33	12,750	\$ 5.24
Portfolio average	4.49	9,982	\$ 9.73	4.60	10,470	\$ 9.33

(1) Excludes redevelopment properties.

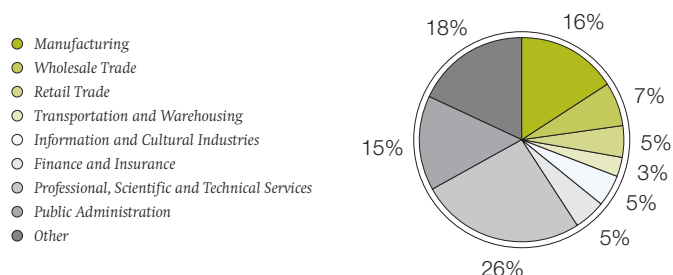
(2) Average in-place rents include straight-line rent adjustments.

(3) Excludes discontinued operations.



Dundee REIT has a broad tenant base with the average tenant occupying approximately 10,000 square feet. The result is a large and diverse tenant base. With more than 1,700 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 6.9%, 4.7% and 3.3% of our gross rental revenue, respectively. The stability and quality of our cash flow is enhanced with approximately 16% of 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	867,000	4.9%	6.9%	2006–2015
Government of Ontario	515,000	2.9%	4.7%	2007–2015
Telus Communications	312,000	1.8%	3.3%	2013–2016
Bell Canada	295,000	1.7%	2.2%	2009–2010
Entrust	146,000	0.8%	1.5%	2015
State Street Trust Company	94,000	0.5%	1.4%	2012
International Financial Data Services	96,000	0.5%	1.3%	2007–2013
Government of Northwest Territories	105,000	0.6%	1.3%	2006–2012
Government of British Columbia	102,000	0.6%	1.3%	2009
Epcor Utilities	188,000	1.1%	1.2%	2011
Total	2,720,000	15.4%	25.1%	

Acquisitions

Acquisitions During the Quarter

A component of our acquisition strategy is to acquire properties in our key markets, allowing us to capitalize on our 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. Over the last three years we have invested over \$1.1 billion in high quality properties that are accretive to our performance. While the majority of our acquisitions have been in our primary target markets we have also entered new markets that offer prospering economies.

This quarter alone we have completed \$385.6 million of acquisitions, which included two portfolio acquisitions in Western Canada and saw Dundee REIT enter two new office markets – Yellowknife, Northwest Territories and Regina, Saskatchewan.

<i>Quarter ended June 30, 2006</i>	<i>Property Type</i>	<i>Interest Acquired</i>	<i>Acquired GLA (sq. ft.)</i>	<i>Occupancy on Acquisition</i>	<i>Purchase Price (\$000's)</i>	<i>Fair Value of Mortgage Assumed (\$000's)</i>	<i>Date Acquired</i>
2440 Scanlan Street, London	industrial	100%	85,000	100%	\$ 6,266	\$ 3,477	April 20, 2006
Sherwood Place, Regina	office	100%	182,000	99%	33,090	14,442	April 21, 2006
1400 boul. de la Rive Sud, Québec	office	100%	77,000	100%	12,062	–	May 1, 2006
4255 14th Avenue, Markham	industrial	100%	57,000	100%	5,914	–	May 1, 2006
Princeton Portfolio, Western Canada	office/ industrial/land	100%	530,000	94%	96,818	43,835	May 17, 2006
10089 Jasper Avenue, Edmonton	development	100%	86,000	–	4,160	–	May 29, 2006
Barker Business Park (Phase II)	land	60%	–	–	8,994	–	June 7, 2006
Calgary Office Portfolio, Calgary	office	100%	822,000	98%	218,257	23,339	June 15, 2006
Total			1,839,000	98%	\$ 385,561	\$ 85,093	

The Princeton Portfolio included properties in Yellowknife, Saskatoon and Edmonton. The buildings in Yellowknife represent best-in-class office properties and account for approximately 72% of the downtown Class A office inventory in this market. Government or government agencies constitute the majority of our tenant base. Yellowknife is enjoying significant economic growth in natural resources, particularly diamonds and natural gas, as well as in tourism. Princeton Tower is conveniently located in downtown Saskatoon and counts the Federal Government, PricewaterhouseCoopers and BMO Nesbitt Burns among its tenants. The property consists of an office tower, with main floor retail and an underground parkade, totalling 132,000 square feet. This is our second office property in this market.

The acquisition of an 822,000 square foot portfolio in Calgary afforded us the opportunity to expand our presence in a market currently boasting the tightest vacancy rates in the country. The portfolio is comprised of six office buildings, three of which are downtown, one is in the Beltline and two are in the suburbs. The portfolio houses 121 tenants, and includes high quality covenant business such as Alberta Infrastructure, AltaLink, Hatch Acres, SNC Lavalin, Industrial Alliance, Telus and Calgary Health Region amongst its major tenants.

Sherwood Place, a two building office complex located in downtown Regina, Saskatchewan. The property is nearly fully occupied with three strong covenants as the major tenants – CGI, Co-operators Life Insurance and Conexus.

Acquisitions Subsequent to Quarter-end

Subsequent to quarter end, we acquired an additional 0.2 million square feet of properties for approximately \$26.9 million. We also have under contract, subject to a variety of conditions, approximately \$43.8 million of office properties totalling 0.4 million square feet. In addition, we provided \$2.9 million in mezzanine financing to acquire a 60% interest in development land located in Caledon, Ontario.

Dispositions

On June 2, 2006, we completed the sale of a 50% interest in Greenbriar Mall in Atlanta, Georgia for net proceeds of \$17.0 million and recorded a \$0.2 million gain on the sale. As a result of the disposition, we released a \$3.7 million cumulative loss from our foreign currency translation adjustment which was recognized as part of the net gain on disposal.

On June 29, 2006, we completed the sale of Kameyosek Shopping Centre, a 46,143 square foot retail property in Regina, Saskatchewan. We received gross proceeds of \$8.4 million and recognized a gain on sale of \$3.3 million.

QUARTERLY INFORMATION

The following tables show quarterly information since June 30, 2004.

(\$000's)	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004
Revenues								
Rental properties revenue	\$ 66,051	\$ 62,970	\$ 60,391	\$ 57,385	\$ 52,720	\$ 50,119	\$ 49,405	\$ 47,318
Interest and fee income	852	499	397	410	619	718	635	585
	66,903	63,469	60,788	57,795	53,339	50,837	50,040	47,903
Expenses								
Rental properties operating expenses	27,744	28,067	27,190	25,216	23,427	23,343	23,481	20,658
Interest	15,833	14,978	14,701	14,378	13,215	11,666	11,600	11,683
Depreciation of rental properties	9,227	8,540	8,087	7,968	6,800	6,604	6,691	6,510
Amortization of deferred leasing costs and intangibles	6,513	5,710	5,907	5,566	4,405	3,630	3,530	3,609
General and administrative	1,755	1,508	1,641	1,361	1,245	1,161	1,899	1,145
	61,072	58,803	57,526	54,489	49,092	46,404	47,201	43,605
Income before the undernoted items	5,831	4,666	3,262	3,306	4,247	4,433	2,839	4,298
Provision for impairment in value of rental property	-	-	(11,533)	-	-	-	-	-
Internalization of property manager	(13,090)	-	-	-	-	-	-	-
Gain (loss) on disposal of rental property	216	-	-	-	-	-	(11)	-
Dilution gain	-	-	296	269	652	673	548	365
Income (loss) before income and large corporations taxes	(7,043)	4,666	(7,975)	3,575	4,899	5,106	3,376	4,663
Income taxes								
Current income and large corporations taxes	76	45	49	44	41	47	46	29
Future income taxes (recovery)	2,453	174	(4,286)	258	183	192	(25)	(1,946)
Income tax expense (recovery)	2,529	219	(4,237)	302	224	239	21	(1,917)
Income (loss) before non-controlling interest and discontinued operations	(9,572)	4,447	(3,738)	3,273	4,675	4,867	3,355	6,580
Loss (income) attributable to non-controlling interest	(517)	(1,323)	1,192	(1,007)	(1,330)	(1,366)	(953)	(1,951)
Income (loss) before discontinued operations	(10,089)	3,124	(2,546)	2,266	3,345	3,501	2,402	4,629
Discontinued operations	3,343	65	(2,469)	(43)	75	180	625	746
Net income (loss)	\$ (6,746)	\$ 3,189	\$ (5,015)	\$ 2,223	\$ 3,420	\$ 3,681	\$ 3,027	\$ 5,375
Net income (loss) per unit								
Basic	\$ (0.23)	\$ 0.15	\$ (0.28)	\$ 0.13	\$ 0.20	\$ 0.22	\$ 0.18	\$ 0.32
Diluted ⁽¹⁾	\$ (0.23)	\$ 0.15	\$ (0.29)	\$ 0.12	\$ 0.17	\$ 0.18	\$ 0.16	\$ 0.30

(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)	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004
Net income (loss)	\$ (6,746)	\$ 3,189	\$ (5,015)	\$ 2,223	\$ 3,420	\$ 3,681	\$ 3,027	\$ 5,375
Add (deduct):								
Depreciation of rental properties	9,255	8,570	8,117	8,053	6,884	6,689	6,785	6,605
Amortization of deferred leasing costs and intangibles	6,527	5,725	5,918	5,765	4,524	3,778	3,672	3,764
Future income tax	2,453	174	(4,286)	259	183	192	(25)	(1,946)
Imputed amortization of leasing costs related to the rent supplement	289	256	318	168	204	487	336	286
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(13)	(5)	(6)	(4)	(3)	(5)	(4)	(3)
Dilution gain	-	-	(296)	(269)	(652)	(673)	(548)	(365)
(Gain) loss on disposal of rental properties	(3,453)	24	3,837	-	25	(242)	(287)	(443)
Provision for impairment in value of rental property	-	-	11,533	-	-	-	-	-
Internalization of property manager	13,090							
Non-controlling interest	527	1,349	(2,281)	986	1,367	1,451	1,245	2,292
Funds from operations	21,929	19,282	17,839	17,181	15,952	15,358	14,201	15,565
Add (deduct):								
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	-	-	-	-	-	-	4	3
Imputed amortization of leasing costs related to the rent supplement	(289)	(256)	(318)	(168)	(204)	(487)	-	-
Amortization of marked-to-market adjustment on acquired debt	(431)	(431)	(417)	(426)	(819)	(350)	(315)	(315)
Deferred unit compensation expense	275	265	243	240	172	175	568	107
Straight-line rent	(647)	(839)	(838)	(904)	(874)	(1,070)	(889)	(1,140)
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	19	21	25	78	3	4	14	32
Amortization of deferred financing costs incurred prior to June 30, 2003	94	94	94	98	87	87	104	86
Amortization of deferred leasing costs incurred subsequent to June 30, 2003	-	-	-	-	-	-	(1,089)	(796)
Amortization of market rent adjustments on acquired leases	(451)	(156)	(82)	(109)	(108)	(33)	(56)	(83)
Distributable income	\$ 20,499	\$ 17,980	\$ 16,546	\$ 15,990	\$ 14,209	\$ 13,684	\$ 12,542	\$ 13,459
Funds from operations per unit								
Basic ⁽¹⁾	\$ 0.67	\$ 0.67	\$ 0.68	\$ 0.68	\$ 0.64	\$ 0.62	\$ 0.58	\$ 0.64
Diluted	\$ 0.64	\$ 0.63	\$ 0.64	\$ 0.63	\$ 0.60	\$ 0.60	\$ 0.56	\$ 0.62
Distributable income per unit								
Basic ⁽¹⁾	\$ 0.63	\$ 0.62	\$ 0.63	\$ 0.63	\$ 0.57	\$ 0.55	\$ 0.51	\$ 0.55
Diluted	\$ 0.60	\$ 0.59	\$ 0.60	\$ 0.59	\$ 0.54	\$ 0.54	\$ 0.50	\$ 0.54
Weighted average units outstanding for FFO and DI								
Basic	32,727,091	28,968,219	26,266,118	25,387,969	25,081,201	24,865,912	24,651,828	24,411,074
Diluted	38,953,240	35,281,362	32,562,042	31,712,785	31,480,407	27,924,777	27,694,849	27,446,183

(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:

	June 30, 2006	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%	96.1%	96.3%	95.5%	95.7%	94.7%	94.3%	95.1%	95.4%
Industrial	95.7%	95.2%	96.2%	97.0%	96.3%	96.0%	94.9%	93.7%	93.4%
Overall	95.9%	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

The second quarter results are a testament to the soundness of our strategy to realign and grow our portfolio. During the quarter we completed an impressive \$386 million of accretive property acquisitions, the majority of which are located in Alberta and throughout Western Canada. As a result of our activity, approximately 40% of our assets are now located in Western Canada and benefiting from the accelerated growth in that region, 73% of NOI is generated by our office portfolio and we have essentially eliminated our retail holdings.

Improvements are evident in each of our key performance indicators, reflecting strength in each area of our business – operations, investment and financing. For the most part, improvements were fuelled by the impact from acquisitions; however, improvements in comparative occupancy rates, modest increases in rental rates as well as a lower weighted average interest rate also had an effect.

Throughout the balance of the year we anticipate that the performance of our comparative office portfolio will continue to improve and that we will experience overall rental rate increases across the portfolio. We anticipate consistent performance from our industrial portfolio, perhaps with some fluctuations in occupancy. Our lease maturity profile remains consistent with our expectations and we do not anticipate any significant lease expiries for the remainder of the year.

Over the last three years, we have acquired over \$1 billion in properties and strategically realigned our portfolio. With the most recent acquisitions and equity issues completed during the second quarter, we reached two milestones – a market capitalization of more than \$1 billion and a gross book value of over \$2 billion. Having achieved this critical scale, going forward, we will concentrate on our operations, in particular on leasing and the efficient management of our buildings, and on increasing our return on equity. While we will continue to seek external growth opportunities, we believe that the most valuable growth can be attained from within our existing portfolio.

RISKS AND OUR STRATEGY TO MANAGE

Dundee REIT is exposed to various risks and uncertainties including:

Development Risk

Due to our involvement in development activities, we are subject to related risks which include: (i) the potential insolvency of a developer; (ii) the developer's failure to use advanced funds in payment of construction costs; (iii) construction or unanticipated delays; (iv) incurring construction costs before ensuring rental revenues will be earned from the project; (v) cost over-runs on the project; and (vi) the failure of tenants to occupy and pay rent in accordance with lease arrangements. Such risks are minimized by generally not commencing construction until satisfactory levels of pre-leasing/sales are achieved. Our risk exposure is further mitigated by our Declaration of Trust, which limits the amount we are able to commit at any one time to no more than 10% of unitholders' equity adjusted for accumulated depreciation and amortization.

For a full list and explanation of our 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.

CONSOLIDATED FINANCIAL STATEMENTS

DUNDEE REAL ESTATE INVESTMENT TRUST CONSOLIDATED BALANCE SHEETS

<i>(unaudited)</i> <i>(in thousands of dollars)</i>	Note	June 30, 2006	December 31, 2005
Assets			
Rental properties	4	\$ 1,675,869	\$ 1,328,395
Deferred costs	5	70,632	65,285
Land	6	28,137	-
Amounts receivable	7	14,257	13,378
Prepaid expenses and other assets	8	31,760	27,175
Cash and cash equivalents		23,172	16,516
Intangible assets	9	84,118	56,964
		\$ 1,927,945	\$ 1,507,713
Liabilities			
Debt	10	\$ 1,161,923	\$ 943,621
Amounts payable and accrued liabilities	11	43,305	32,260
Distributions payable	12	6,653	5,356
Future income tax liability		4,187	1,577
Intangible liabilities	9	28,404	6,181
		1,244,472	988,995
Non-controlling Interest	13	-	146,976
Unitholders' Equity	13	683,473	371,742
		\$ 1,927,945	\$ 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

<i>(unaudited)</i> <i>(in thousands of dollars, except per unit amounts)</i>	<i>Note</i>	<i>For the Three Months Ended June 30</i>		<i>For the Six Months Ended June 30</i>	
		2006	2005	2006	2005
Revenues					
Rental properties revenue		\$ 66,051	\$ 52,720	\$ 129,021	\$ 102,839
Interest and fee income		852	619	1,351	1,337
		66,903	53,339	130,372	104,176
Expenses					
Rental properties operating expenses		27,744	23,427	55,811	46,770
Interest	14	15,833	13,215	30,811	24,881
Depreciation of rental properties		9,227	6,800	17,767	13,404
Amortization of deferred leasing costs and intangibles		6,513	4,405	12,223	8,035
General and administrative		1,755	1,245	3,263	2,406
		61,072	49,092	119,875	95,496
Income Before the Undernoted Items					
Internalization of property manager	21	(13,090)	–	(13,090)	–
Gain on disposal of rental property	22	216	–	216	–
Dilution gain	13	–	652	–	1,325
Income (Loss) Before Income and Large Corporations Taxes		(7,043)	4,899	(2,377)	10,005
Income Taxes					
Current income and large corporations taxes		76	41	121	88
Future income taxes		2,453	183	2,627	375
	23	2,529	224	2,748	463
Income (Loss) Before Non-Controlling Interest and Discontinued Operations					
Income Attributable to Non-Controlling Interest		(9,572)	4,675	(5,125)	9,542
Income (Loss) Before Discontinued Operations					
Discontinued Operations	18	3,343	75	3,408	255
Net Income (Loss)		\$ (6,746)	\$ 3,420	\$ (3,557)	\$ 7,101
Basic Income (Loss) Per Unit					
Continuing operations	15	\$ (0.34)	\$ 0.20	\$ (0.28)	\$ 0.41
Discontinued operations		0.11	–	0.14	0.01
Net Income (Loss)		\$ (0.23)	\$ 0.20	\$ (0.14)	\$ 0.42
Diluted Income (Loss) Per Unit					
Continuing operations	15	\$ (0.34)	\$ 0.17	\$ (0.28)	\$ 0.34
Discontinued operations		0.11	–	0.14	0.01
Net Income (Loss)		\$ (0.23)	\$ 0.17	\$ (0.14)	\$ 0.35

See accompanying notes to the consolidated financial statements

DUNDEE REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

<i>(unaudited)</i> <i>(in thousands of dollars, except number of units)</i>	<i>Note</i>	<i>Number of Units</i>	<i>Cumulative Capital</i>	<i>Cumulative Net Income</i>	<i>Cumulative Distributions</i>	<i>Cumulative Foreign Currency Translation Adjustment</i>	<i>Total</i>
Unitholders' Equity,							
January 1, 2006		20,449,209	\$ 446,678	\$ 15,844	\$ (85,680)	\$ (5,100)	\$ 371,742
Net loss		-	-	(3,557)	-	-	(3,557)
Distributions paid	12	-	-	-	(21,661)	-	(21,661)
Distributions payable	12	-	-	-	(6,653)	-	(6,653)
Distribution Reinvestment Plan	13	446,898	12,274	-	-	-	12,274
Public offering of units	13	6,080,000	169,966	-	-	-	169,966
Unit Purchase Plan	13	12,585	342	-	-	-	342
Conversion of 6.5%							
Debentures to equity	13	148,960	3,724	-	-	-	3,724
Conversion of 5.7%							
Debentures to equity	13	1,633	49	-	-	-	49
Issue of units on internalization of property manager	21	485,016	13,357	-	-	-	13,357
Deferred Unit Incentive Plan	13	-	540	-	-	-	540
Issue costs		-	(7,897)	-	-	-	(7,897)
Change in foreign currency translation adjustment	22	-	-	-	-	1,914	1,914
Reclassification of LP Class B Units, Series 1	13	8,337,365	195,884	6,326	(50,504)	(2,373)	149,333
Unitholders' Equity,							
June 30, 2006		35,961,666	\$ 834,917	\$ 18,613	\$ (164,498)	\$ (5,559)	\$ 683,473

<i>(unaudited)</i> <i>(in thousands of dollars, except number of units)</i>	<i>Note</i>	<i>Number of Units</i>	<i>Cumulative Capital</i>	<i>Cumulative Net Income</i>	<i>Cumulative Distributions</i>	<i>Cumulative Foreign Currency Translation Adjustment</i>	<i>Total</i>
Unitholders' Equity,							
January 1, 2005		16,819,963	\$ 357,585	\$ 11,535	\$ (47,449)	\$ (3,126)	\$ 318,545
Net income		-	-	7,101	-	-	7,101
Distributions paid		-	-	-	(15,495)	-	(15,495)
Distributions payable		-	-	-	(3,120)	-	(3,120)
Distribution Reinvestment Plan	13	84,075	2,193	-	-	-	2,193
Unit Purchase Plan	13	577	15	-	-	-	15
Conversion of 6.5%							
Debentures to equity	13	400	10	-	-	-	10
Redemption of units		(100)	(2)	-	-	-	(2)
Deferred Unit Incentive Plan	13	-	347	-	-	-	347
Issue costs		-	(10)	-	-	-	(10)
Equity component of convertible debenture		-	1,200	-	-	-	1,200
Change in foreign currency translation adjustment		-	-	-	-	(17)	(17)
Unitholders' Equity,							
June 30, 2005		16,904,915	\$ 361,338	\$ 18,636	\$ (66,064)	\$ (3,143)	\$ 310,767

See accompanying notes to the consolidated financial statements

DUNDEE REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(unaudited)</i> <i>(in thousands of dollars, except per unit amounts)</i>	<i>Note</i>	<i>For the Three Months Ended June 30</i>		<i>For the Six Months Ended June 30</i>	
		2006	2005	2006	2005
Generated from (Utilized in) Operating Activities					
Net income (loss)		\$ (6,746)	\$ 3,420	\$ (3,557)	\$ 7,101
Non-cash items:					
Depreciation of rental properties		9,255	6,884	17,825	13,573
Amortization of deferred leasing costs and intangibles		6,527	4,524	12,252	8,302
Amortization of deferred financing costs		425	401	858	697
Amortization of marked-to-market adjustment on acquired debt		(431)	(819)	(862)	(1,169)
Internalization of property manager		13,090	–	13,090	–
Loss (gain) on disposal of rental properties		(3,428)	25	(3,428)	(217)
Deferred unit compensation expense		275	172	540	347
Future income taxes		2,453	183	2,627	375
Amortization of market rent adjustments on acquired leases		(451)	(108)	(607)	(141)
Straight-line rent adjustment		(647)	(874)	(1,486)	(1,945)
Dilution gain		–	(652)	–	(1,325)
Non-controlling interest		527	1,367	1,876	2,818
		20,849	14,523	39,128	28,416
Deferred leasing costs incurred		(3,380)	(2,713)	(5,919)	(5,337)
Change in non-cash working capital	20	5,591	6,697	5,081	5,986
		23,060	18,507	38,290	29,065
Generated from (Utilized in) Investing Activities					
Investment in rental properties		(1,662)	(1,135)	(3,769)	(2,405)
Investment in land		(292)	–	(292)	–
Acquisition of rental properties and land	3	(297,109)	(129,456)	(318,599)	(170,411)
Acquisition deposit on rental properties		600	170	(600)	(675)
Investment in mezzanine loan		(2,235)	(150)	(2,235)	(750)
Net proceeds from disposal of rental properties		25,337	(25)	25,337	2,254
Change in restricted cash, net		(132)	5,744	199	8,453
		(275,493)	(124,852)	(299,959)	(163,534)
Generated from (Utilized in) Financing Activities					
Mortgages placed, net of costs		117,006	53,050	160,340	57,050
Mortgage principal repayments		(6,058)	(4,122)	(11,588)	(8,146)
Mortgage lump sum repayments		–	(37,553)	(12,926)	(39,698)
Term debt principal repayments		(115)	(116)	(214)	(239)
Term debt lump sum repayments		(14,957)	–	(14,957)	(2,075)
Term debt placed, net of costs		5,892	–	5,892	–
Convertible debentures issued, net of costs		–	95,668	–	95,668
Demand revolving credit facility, net		–	8,978	–	42,239
Demand non-revolving credit facility		–	(3,092)	–	(6,107)
Distributions paid on REIT Units	12	(11,253)	(8,027)	(21,090)	(16,391)
Units issued for cash, net of costs		162,656	6	162,868	2
		253,171	104,792	268,325	122,303
Increase (Decrease) in Cash and Cash Equivalents		738	(1,553)	6,656	(12,166)
Cash and Cash Equivalents, Beginning of Period		22,434	6,718	16,516	17,331
Cash and Cash Equivalents, End of Period		\$ 23,172	\$ 5,165	\$ 23,172	\$ 5,165

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.

On May 12, 2006, the Trust acquired the remaining 50% interest in DMLP as discussed in Note 21 – Internalization of Property Manager.

At June 30, 2006, DRC directly and indirectly owned 682,213 REIT Units, Series A (“Units” or “REIT Units”) and 8,825,453 LP Class B Units, Series 1 (which includes 35,016 units in escrow).

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 except as described below:

Land

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

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

Land under development and land held for development are assessed for impairment when events or circumstances indicated that the carrying value of the land may be impaired. A recoverability analysis is performed based on estimated undiscounted future cash flows to be generated from property operations and its projected disposition. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to its estimated fair value and an impairment loss is recognized.

Land held for sale includes acquisition, costs, pre-development costs, interest on specific debt and property taxes, less miscellaneous revenue earned. Interest on general debt and general and administrative expenses are not capitalized to land held for sale. Land held for sale is carried at the lower of capitalized cost and net realizable value.

Deferred Leasing Costs

Deferred leasing costs include tenant inducement payments for which the tenant has no obligation to make leasehold improvements to the leased space. Tenant inducements are amortized against revenue property revenue on a straight-line basis over the term of the applicable lease.

3. PROPERTY ACQUISITIONS

The Trust completed the following acquisitions during the six months ended June 30, 2006 and 2005, which have contributed to operating results from the date of acquisition:

Six Months Ended June 30, 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
2440 Scanlan Street, London	industrial	100%	85,000	100%	6,266	3,477	April 20, 2006
Sherwood Place, Regina	office	100%	182,000	99%	33,090	14,442	April 21, 2006
1400 boul. de la Rive Sud, Québec	office	100%	77,000	100%	12,062	–	May 1, 2006
4255 14th Avenue, Markham	industrial	100%	57,000	100%	5,914	–	May 1, 2006
Princeton Portfolio, Western Canada	office/ industrial/ land	100%	530,000	94%	96,818	43,835	May 17, 2006
10089 Jasper Avenue, Edmonton	development	100%	86,000	–	4,160	–	May 29, 2006
Barker Business Park (Phase II), Toronto	land	60%	–	–	8,994	–	June 7, 2006
Calgary Office Portfolio, Calgary	office	100%	822,000	98%	218,257	23,339	June 15, 2006
Total			2,251,000	98%	\$ 416,927	\$ 94,409	

Six Months Ended June 30, 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%	\$ 9,631	\$ 4,655	January 13, 2005
1219 Corporate Drive, Burlington	industrial	100%	103,000	100%	6,640	–	January 31, 2005
204 King Street East, Toronto	office	100%	135,000	100%	20,475	–	February 25, 2005
2580 avenue Dollard, Montréal	industrial	100%	90,000	100%	4,700	2,600	March 2, 2005
Epcor Centre, Edmonton	office	10% ⁽¹⁾	19,000	100%	1,530	–	March 4, 2005
2465 St. Laurent Blvd., Ottawa	office	100%	62,000	100%	8,612	3,222	March 8, 2005
56 Wellesley Street West, Toronto	office	50% ⁽¹⁾	108,000	100%	14,141	4,364	April 1, 2005
120 Valleywood Drive, Markham	industrial	50% ⁽¹⁾	30,000	100%	1,694	852	April 1, 2005
2280 boul. Alfred-Nobel, Montréal	office	100%	86,000	–	5,472	–	April 8, 2005
1000 boul. Saint-Jean, Montréal	office	100%	112,000	98%	16,133	6,762	April 14, 2005
22000 Trans-Canada Hwy. and 115 boul. Hymus, Montréal	industrial	100%	371,000	100%	24,548	–	April 18, 2005
1415-1511 rue Berlier, Laval	industrial	100%	64,000	100%	4,432	–	May 5, 2005
375-425 Britannia Road, Mississauga	industrial	100%	121,000	99%	10,468	3,269	May 30, 2005
Joffre Place, Calgary	office	100%	111,000	96%	18,310	9,680	June 2, 2005
975 boul. Saint-Joseph, Gatineau	office	100%	194,000	99%	25,945	14,483	June 17, 2005
400 - 480 boul. Armand Frappier, Laval	office	100%	198,000	94%	35,525	–	June 20, 2005
2285 Speakman Drive, Mississauga	office	100%	131,000	100%	13,161	–	June 27, 2005
Total			2,049,000		\$ 221,417	\$ 49,887	

(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:

<i>For the Six Months Ended June 30</i>	2006	2005
Rental properties		
Land	\$ 44,027	\$ 32,606
Buildings	323,499	164,350
Equipment	403	-
Properties under development	4,461	-
	372,390	196,956
Land		
Under development	18,788	-
Held for development	704	-
Held for sale	8,353	-
Third party management contracts	195	-
Deferred leasing costs acquired	6,596	6,765
Tenant loan receivables	-	177
Intangible assets		
Value of in-place leases	17,535	10,059
Lease origination costs	2,726	2,203
Value of above market rent leases	2,574	260
Value of tenant relationships	10,274	5,741
	440,135	222,161
Intangible liabilities		
Value of below market rent leases	(23,208)	(744)
Total purchase price	\$ 416,927	\$ 221,417

The consideration paid consists of:

Cash		
Paid during the period	\$ 318,599	\$ 170,411
Deposit	710	450
	319,309	170,861
Assumed mortgages at fair value	94,409	49,887
Assumed accounts payable and accrued liabilities	3,209	669
Total consideration	\$ 416,927	\$ 221,417

The allocations of the purchase prices to fair values of assets acquired and liabilities assumed for property acquisitions completed after January 27, 2006 have not been finalized and will be subject to adjustment.

4. RENTAL PROPERTIES

	June 30, 2006			December 31, 2005		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 273,799	\$ -	\$ 273,799	\$ 233,502	\$ -	\$ 233,502
Buildings and improvements	1,487,472	(97,983)	1,389,489	1,170,111	(84,412)	1,085,699
Equipment	4,024	(2,577)	1,447	2,661	(1,927)	734
Rental properties under development	11,134	-	11,134	8,460	-	8,460
Total	\$ 1,776,429	\$ (100,560)	\$ 1,675,869	\$ 1,414,734	\$ (86,339)	\$ 1,328,395

5. DEFERRED COSTS

	June 30, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Deferred leasing costs	\$ 81,108	\$ (28,974)	\$ 52,134	\$ 71,133	\$ (24,049)	\$ 47,084
Deferred recoverable costs	13,659	(6,692)	6,967	13,462	(5,970)	7,492
Deferred financing costs	15,318	(4,723)	10,595	13,819	(3,881)	9,938
Other deferred costs	1,851	(915)	936	1,617	(846)	771
Total	\$ 111,936	\$ (41,304)	\$ 70,632	\$ 100,031	\$ (34,746)	\$ 65,285

Amortization of deferred recoverable costs included in operating expenses for the six months ended June 30, 2006 is \$799 (June 30, 2005 – \$795).

6. LAND

	June 30, 2006	December 31, 2005
Land under development	\$ 19,080	\$ –
Land held for development	704	–
Land held for sale	8,353	–
Total	\$ 28,137	\$ –

7. AMOUNTS RECEIVABLE

Amounts receivable include straight-line rents receivable of \$11,145 (December 31, 2005 – \$9,944) and credit adjustments of \$7,159 (December 31, 2005 – \$3,718).

8. PREPAID EXPENSES AND OTHER ASSETS

	June 30, 2006	December 31, 2005
Prepaid expenses	\$ 8,085	\$ 5,576
Mezzanine loans	15,106	12,513
Vendor loan	3,450	3,450
Deposits	964	1,282
Restricted cash	4,155	4,354
Total	\$ 31,760	\$ 27,175

The Trust has provided an \$11,226 mezzanine loan 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. At June 30, 2006, the balance was \$23,318.

On May 26, 2006, the Trust entered into a joint venture agreement with a development partner to jointly own and develop prestige industrial and office properties in its target markets. The Trust has a 60% ownership interest in the joint venture. As part of the agreement, the Trust is required to provide mezzanine financing equal to 90% of any funding requirement, up to a maximum of \$45,000, not otherwise provided by third-party lenders. The Trust is also required to guarantee, when necessary, 90% of financing

obtained from third parties. On June 7, 2006, the Trust provided an initial investment of \$5,493 for the purchase of approximately 40 acres of serviced land in suburban Toronto and has also provided a \$8,289 guarantee on the financing provided by a third-party lender. In addition, the Trust has the right to purchase completed properties, other than build to suit properties that will be sold to third parties. Included in the initial investment is a \$2,235 mezzanine loan to the joint venture at an effective rate of 11% of which no payment has been received to date.

A vendor loan in the principal amount of \$3,450 formed a portion of the proceeds from the sale of Northgate Mall in December 2004. The loan bears interest at 5.96%, is payable monthly and is to be repaid by December 14, 2006.

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

9. INTANGIBLE ASSETS AND LIABILITIES

	June 30, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Intangible Assets						
Value of above market rent leases	\$ 7,687	\$ (1,634)	\$ 6,053	\$ 5,113	\$ (1,256)	\$ 3,857
Value of in-place leases	46,003	(9,591)	36,412	28,614	(6,413)	22,201
Lease origination costs	11,188	(2,477)	8,711	8,465	(1,683)	6,782
Value of tenant relationships	37,898	(4,956)	32,942	27,418	(3,294)	24,124
Total	\$ 102,776	\$ (18,658)	\$ 84,118	\$ 69,610	\$ (12,646)	\$ 56,964

	June 30, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Intangible Liabilities						
Value of below market rent leases	\$ 31,029	\$ (2,625)	\$ 28,404	\$ 7,843	\$ (1,662)	\$ 6,181

10. DEBT

	June 30, 2006	December 31, 2005
Mortgages	\$ 987,943	\$ 756,920
Convertible debentures	167,709	171,368
Term debt	6,271	15,333
Total	\$ 1,161,923	\$ 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 (6.0% as at June 30, 2006) plus 0.375% or bankers' acceptance rates. The facility expires on June 19, 2007 and is secured by a first ranking collateral mortgage on nine of the Trust's properties and a second ranking collateral mortgage on two properties. As at June 30, 2006, the maximum amount available under this facility was \$79,760, of which \$54 was utilized in the form of letters of guarantee (December 31, 2005 – \$208). As at June 30, 2006, the amount still available under this facility was \$79,706.

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

	Weighted Average Interest Rates as at		Maturity Dates	Debt Amount	
	June 30, 2006	December 31, 2005		June 30, 2006	December 31, 2005
Fixed Rate					
Mortgages	5.95%	6.17%	2006 – 2019	\$ 969,378	\$ 756,920
Convertible debentures	6.18%	6.19%	2014 – 2015	167,709	171,368
Term debt	8.89%	6.70%	2006 – 2011	745	271
Total fixed rate	5.99%	6.17%		1,137,832	928,559
Variable Rate					
Mortgage	8.18%	–	2008	18,565	–
Term debt	7.00%	5.65%	2007	5,526	15,062
Total variable rate	7.91%	5.65%		24,091	15,062
Total debt	6.03%	6.16%		\$ 1,161,923	\$ 943,621

The variable rate mortgage debt outstanding at June 30, 2006 bears interest generally at the rate of LIBOR plus 3.05% up to a maximum of 8.75%. At June 30, 2006, the LIBOR rate was 5.13%.

The scheduled principal repayments and debt maturities are as follows:

Years ending December 31,	Mortgages	Term Debt	Convertible Debentures	Total
Remainder of 2006	\$ 46,088	\$ 6,042	\$ –	\$ 52,130
2007	46,074	116	–	46,190
2008	138,019	113	–	138,132
2009	142,530	–	–	142,530
2010	60,877	–	–	60,877
2011 and thereafter	554,355	–	167,709	722,064
	\$ 987,943	\$ 6,271	\$ 167,709	\$ 1,161,923

Included in mortgages are \$10,426 in marked-to-market adjustments (December 31, 2005 \$8,488) reflecting the fair value of mortgages assumed as part of acquisitions. The 6.5% and 5.7% Debentures are net of a \$1,492 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.

11. AMOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2006	December 31, 2005
Trade payables	\$ 3,117	\$ 2,074
Accrued liabilities and other payables	23,503	15,787
Accrued interest	5,744	5,428
Deposits	6,933	6,646
Rent received in advance	4,008	2,325
Total	\$ 43,305	\$ 32,260

12. DISTRIBUTIONS

The following table sets out distribution payments for the six months ended June 30, 2006.

	REIT Units, Series A	LP Class B Units, Series 1	Total
Paid in cash	\$ 21,090	\$ -	\$ 21,090
Paid by way of reinvestment in REIT Units, Series A	2,668	9,520	12,188
Paid by way of reinvestment in LP Class B Units, Series 1	-	86	86
Less: Payable at December 31, 2005	(3,769)	(1,587)	(5,356)
Plus: Payable at June 30, 2006	4,980	1,673	6,653
Total	\$ 24,969	\$ 9,692	\$ 34,661

The amount payable at June 30, 2006 was satisfied on July 15, 2006 by way of \$4,603 in cash and \$2,050 by way of 68,712 REIT Units, Series A and 3,017 LP Class B Units, Series 1. Included in the total distributions is \$472 representing the 4% bonus distribution 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. Holders of LP Class B Units, Series 1 issued on the internalization of the property manager elected to receive their distributions in form of LP Class B Units, Series 1.

13. UNITHOLDERS' EQUITY

	June 30, 2006		December 31, 2005	
	Number of Units	Amount	Number of Units	Amount
REIT Units, Series A	27,136,213	\$ 529,404	20,449,209	\$ 376,842
LP Class B Units, Series 1	8,825,453	159,628	8,337,365	149,056
Cumulative foreign currency translation adjustment	-	(5,559)	-	(7,180)
Total	35,961,666	\$ 683,473	28,786,574	\$ 518,718

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

	REIT Units, Series A		LP Class B Units, Series 1		Cumulative Foreign Currency Translation Adjustment	Total	
	Number of Units	Amount	Number of Units	Amount		Number of Units	Amount
Unitholders' Equity, January 1, 2006	20,449,209	\$ 376,842	-	\$ -	\$ (5,100)	20,449,209	\$ 371,742
Net loss	-	(1,382)	-	(2,175)	-	-	(3,557)
Distributions paid	-	(19,988)	-	(1,673)	-	-	(21,661)
Distributions payable	-	(4,980)	-	(1,673)	-	-	(6,653)
Public Offering of Units	6,080,000	169,966	-	-	-	6,080,000	169,966
Distribution Reinvestment Plan	443,830	12,188	3,072	86	-	446,898	12,274
Unit Purchase Plan	12,581	342	-	-	-	12,585	342
Deferred Unit Incentive Plan	-	540	-	-	-	-	540
Issue costs	-	(7,897)	-	-	-	-	(7,897)
Reclassification of LP Class B Units, Series 1	-	-	8,337,365	151,706	(2,373)	8,337,365	149,333
Conversion of 6.5% Debenture to equity	148,960	3,724	-	-	-	148,960	3,724
Conversion of 5.7% Debenture to equity	1,633	49	-	-	-	1,633	49
Issue of equity on internalization of property manager	-	-	485,016	13,357	-	485,016	13,357
Change in foreign currency translation adjustment	-	-	-	-	1,914	-	1,914
Unitholders' Equity, June 30, 2006	27,136,213	\$ 529,404	8,825,453	\$ 159,628	\$ (5,559)	35,961,666	\$ 683,473

LP Class B Units, Series 1 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 and discontinued operations	-	1,876	-	1,876
Distributions paid	-	(6,347)	-	(6,347)
Impact of dilution	-	7,121	-	7,121
Change in foreign currency translation adjustment	-	-	(293)	(293)
Reclassification to unitholders' equity	(8,337,365)	(151,706)	2,373	(149,333)
Non-controlling interest, June 30, 2006	-	\$ -	\$ -	\$ -

Public Offering of Units

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

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

Distribution Reinvestment and Unit Purchase Plan ("DRIP")

For the six months ended June 30, 2006, 443,830 REIT Units, Series A and 3,072 LP Class B Units, Series 1, were issued under the distribution reinvestment plan for \$12,274 (June 30, 2005 – 84,075 REIT Units Series A and 354,644 LP Class B Units, Series 1 for \$11,409).

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 \$1,325 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. In addition, no further dilution gains will be reported as a result of reclassifying the LP Class B Units, Series 1 as equity effective May 1, 2006.

Unit Purchase Plan

For the six months ended June 30, 2006, 12,581 REIT Units, Series A were issued under the Unit Purchase Plan for \$342 (June 30, 2005 – 577 REIT Units, Series A for \$15).

Conversion of Debentures

During the six months ended June 30, 2006, the Trust issued 148,960 REIT Units, Series A upon conversion of \$3,724 principal amount of the 6.5% Debentures (June 30, 2005 – issued 400 REIT Units, Series A upon conversion of \$10 principal amount) and 1,633 REIT Units, Series A upon conversion of \$49 principal amount of the 5.7% Debentures (June 30, 2005 – nil).

Deferred Unit Incentive Plan

During the six months ended June 30, 2006, \$540 (June 30, 2005 – \$347) 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	-	-	8,929	8,929
Cancelled	23.60	(3,000)	(237)	(3,237)
Outstanding and payable at June 30, 2006	\$ 23.60	197,167	33,733	230,900
Vested but not issued at June 30, 2006	\$ 23.60	38,033	9,370	47,403

14. INTEREST

Interest incurred and charged to earnings is recorded as follows:

	<i>For the Three Months Ended June 30</i>		<i>For the Six Months Ended June 30</i>	
	2006	2005	2006	2005
Interest expense incurred, at stated rate of debt	\$ 16,129	\$ 13,719	\$ 31,190	\$ 25,448
Amortization of deferred financing costs	425	394	858	681
Marked-to-market rate adjustment	(431)	(819)	(862)	(1,169)
Interest capitalized	(290)	(79)	(375)	(79)
Interest expense	\$ 15,833	\$ 13,215	\$ 30,811	\$ 24,881

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 redevelopment.

15. INCOME PER UNIT

The weighted average number of units outstanding was as follows:

	<i>For the Three Months Ended June 30</i>		<i>For the Six Months Ended June 30</i>	
	2006	2005	2006	2005
REIT Units, Series A	24,092,488	16,875,849	22,349,830	16,857,273
LP Class B Units, Series 1	5,751,357	-	2,891,566	-
Vested Deferred Trust Units	43,045	14,167	43,045	14,167
Total weighted-average number of units outstanding for basic income per unit amounts	29,886,890	16,890,016	25,284,441	16,871,440
Add incremental units:				
LP Class B Units, Series 1	-	8,191,185	-	8,102,711
Unvested Deferred Trust Units	60,210	51,001	58,970	52,589
Income Deferred Trust Units	26,490	15,272	24,175	13,520
Total weighted average number of units outstanding for diluted income per unit amounts	29,973,590	25,147,474	25,367,586	25,040,260

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

	<i>For the Three Months Ended June 30</i>		<i>For the Six Months Ended June 30</i>	
	2006	2005	2006	2005
Income (loss) before discontinued operations for basic income per unit amounts	\$ (10,089)	\$ 3,345	\$ (6,965)	\$ 6,846
Add: Income attributable to non-controlling interest	-	1,330	-	2,696
Depreciation expense	-	54	-	102
Deduct: Dilution gain	-	(652)	-	(1,325)
Income (loss) before discontinued operations for diluted per unit amounts	\$ (10,089)	\$ 4,077	\$ (6,965)	\$ 8,319

The 5,573,598 incremental LP Class B Units, Series 1 for the six months ended June 30, 2006 (2,840,201 for the six months ended June 30, 2005) have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

The 6,151,652 incremental units of an assumed conversion of both debenture issues for the six months ended June 30, 2006 (June 30, 2005 – 4,675,530 incremental units) have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

16. SEGMENTED INFORMATION

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

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

<i>For the Three Months Ended June 30, 2006</i>	<i>Office</i>	<i>Industrial</i>	<i>Segment Total</i>	<i>Other</i>	<i>Total</i>
Operations					
Revenues	\$ 48,382	\$ 15,855	\$ 64,237	\$ 1,814	\$ 66,051
Operating expenses	(21,139)	(5,742)	(26,881)	(863)	(27,744)
Net operating income	27,243	10,113	37,356	951	38,307
Depreciation of rental properties	(6,546)	(2,399)	(8,945)	(282)	(9,227)
Amortization of deferred leasing costs and intangibles	(5,304)	(1,144)	(6,448)	(65)	(6,513)
Segment income	\$ 15,393	\$ 6,570	\$ 21,963	\$ 604	22,567
Interest expense					(15,833)
General and administrative expenses					(1,755)
Internalization of property manager					(13,090)
Gain on disposal of rental property					216
Interest and fee income					852
Income taxes					(2,529)
Income attributable to non-controlling interest					(517)
Discontinued operations					3,343
Net loss					\$ (6,746)
Segment rental properties	\$ 1,245,496	\$ 395,719	\$ 1,641,215	\$ 34,654	\$ 1,675,869
Capital Expenditures					
Investment in rental properties	\$ (807)	\$ (922)	\$ (1,729)	\$ 67	\$ (1,662)
Investment in land	-	-	-	(292)	(292)
Acquisition of rental properties and land	(256,528)	(12,736)	(269,264)	(27,845)	(297,109)
Deferred leasing costs	(2,499)	(827)	(3,326)	(54)	(3,380)
Total capital expenditures	\$ (259,834)	\$ (14,485)	\$ 274,319	\$ (28,124)	\$ (302,443)

For the Three Months Ended June 30, 2005	Office	Industrial	Segment Total	Other	Total
Operations					
Revenues	\$ 37,417	\$ 13,035	\$ 50,452	\$ 2,268	\$ 52,720
Operating expenses	(17,458)	(4,688)	(22,146)	(1,281)	(23,427)
Net operating income	19,959	8,347	28,306	987	29,293
Depreciation of rental properties	(4,401)	(1,992)	(6,393)	(407)	(6,800)
Amortization of deferred leasing costs and intangibles	(3,223)	(1,111)	(4,334)	(71)	(4,405)
Segment income	\$ 12,335	\$ 5,244	\$ 17,579	\$ 509	18,088
Interest expense					(13,215)
General and administrative expenses					(1,245)
Dilution gain					652
Interest and fee income					619
Income taxes					(224)
Income attributable to non-controlling interest					(1,330)
Discontinued operations					75
Net income					\$ 3,420
Segment rental properties	\$ 866,416	\$ 305,789	\$ 1,172,205	\$ 71,892	\$ 1,244,097
Capital Expenditures					
Investment in rental properties	\$ (454)	\$ (689)	\$ (1,143)	\$ 8	\$ (1,135)
Acquisition of rental properties and land	(92,402)	(37,054)	(129,456)	-	(129,456)
Deferred leasing costs	(1,789)	(779)	(2,568)	(145)	(2,713)
Total capital expenditures	\$ (94,645)	\$ (38,522)	\$ (133,167)	\$ (137)	\$ (133,304)
For the Six Months Ended June 30, 2006					
	Office	Industrial	Segment Total	Other	Total
Operations					
Revenues	\$ 93,979	\$ 31,033	\$ 125,012	\$ 4,009	\$ 129,021
Operating expenses	(42,378)	(11,413)	(53,791)	(2,020)	(55,811)
Net operating income	51,601	19,620	71,221	1,989	73,210
Depreciation of rental properties	(12,348)	(4,746)	(17,094)	(673)	(17,767)
Amortization of deferred leasing costs and intangibles	(9,310)	(2,755)	(12,065)	(158)	(12,223)
Segment income	\$ 29,943	\$ 12,119	\$ 42,062	\$ 1,158	43,220
Interest expense					(30,811)
General and administrative expenses					(3,263)
Internalization of property manager					(13,090)
Gain on disposal of rental property					216
Interest and fee income					1,351
Income taxes					(2,748)
Income attributable to non-controlling interest					(1,840)
Discontinued operations					3,408
Net loss					\$ (3,557)
Segment rental properties	\$ 1,245,496	\$ 395,719	\$ 1,641,215	\$ 34,654	\$ 1,675,869
Capital Expenditures					
Investment in rental properties	\$ (1,595)	\$ (2,173)	\$ (3,768)	\$ (1)	\$ (3,769)
Investment in land	-	-	-	(292)	(292)
Acquisition of rental properties and land	(265,884)	(24,870)	(290,754)	(27,845)	(318,599)
Deferred leasing costs	(4,249)	(1,536)	(5,785)	(134)	(5,919)
Total capital expenditures	\$ (271,728)	\$ (28,579)	\$ (300,307)	\$ (28,272)	\$ (328,579)

<i>For the Six Months Ended June 30, 2005</i>	<i>Office</i>	<i>Industrial</i>	<i>Segment Total</i>	<i>Other</i>	<i>Total</i>
Operations					
Revenues	\$ 73,074	\$ 25,270	\$ 98,344	\$ 4,495	\$ 102,839
Operating expenses	(34,826)	(9,453)	(44,279)	(2,491)	(46,770)
Net operating income	38,248	15,817	54,065	2,004	56,069
Depreciation of rental properties	(8,754)	(3,840)	(12,594)	(810)	(13,404)
Amortization of deferred leasing costs and intangibles	(5,878)	(2,021)	(7,899)	(136)	(8,035)
Segment income	\$ 23,616	\$ 9,956	\$ 33,572	\$ 1,058	34,630
Interest expense					(24,881)
General and administrative expenses					(2,406)
Dilution gain					1,325
Interest and fee income					1,337
Income taxes					(463)
Income attributable to non-controlling interest					(2,696)
Discontinued operations					255
Net income					\$ 7,101
Segment rental properties	\$ 866,416	\$ 305,789	\$ 1,172,205	\$ 71,892	\$ 1,244,097
Capital Expenditures					
Investment in rental properties	\$ (1,062)	\$ (1,294)	\$ (2,356)	\$ (49)	\$ (2,405)
Acquisition of rental properties and land	(124,661)	(45,750)	(170,411)	-	(170,411)
Deferred leasing costs	(3,199)	(1,907)	(5,106)	(231)	(5,337)
Total capital expenditures	\$ (128,922)	\$ (48,951)	\$ (177,873)	\$ (280)	\$ (178,153)

17. RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

From time to time Dundee REIT and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms. Prior to May 1, 2006, Dundee REIT, DPLP, DMLP and DRC were parties to a property management agreement and an administrative services agreement (the "Management Agreement" and the "Services Agreement"). DMLP and DRC are parties to an administrative services agreement (the "DRC Services Agreement"). Effective May 1, 2006, the Trust acquired DRC's 50% interest in DMLP (see Note 21). As a result DRC is no longer party to the Management Agreement, other than its rent supplement obligation and the Services Agreement. DMLP and DRC have extended the term of the DRC Services Agreement until June 30, 2013.

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

	<i>For the Three Months Ended June 30</i>		<i>For the Six Months Ended June 30</i>	
	2006	2005	2006	2005
Fees Received				
Rent supplement received by Dundee REIT under the Management Agreement (included in rental properties revenue)	\$ 398	\$ 641	\$ 863	\$ 1,328
Fees, cost recovery and rental income received by Dundee REIT under the DRC Services Agreement (included as a reduction of operating expenses)	231	136	386	281
Fees Paid				
Fees paid by Dundee REIT under the Management Agreement				
Prior to May 1, 2006				
Management fees, included in rental properties' operating expenses	\$ 348	\$ 869	\$ 1,346	\$ 1,678
Construction fees, capitalized to the related assets	39	82	98	150
Lease administration fees, included in deferred leasing costs	65	189	251	377
Fees paid by Dundee REIT under the Services Agreement				
Prior to May 1, 2006				
Acquisition and financing fees, capitalized to the related assets	80	137	217	267

Included in amounts receivable at June 30, 2006 is \$59 related to the Management and Services Agreements and the DRC Services Agreement (December 31, 2005 – \$215). Included in accrued liabilities and other payables at June 30, 2006 is \$305 related to the Management and Services Agreements (December 31, 2005 – \$251).

18. 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.
- On June 29, 2006, the Trust completed the sale of Kameyosek Shopping Centre, a 46,143 square foot retail property. The Trust received proceeds of \$8,375 and recognized a gain on sale of \$3,258.

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2006	2005	2006	2005
Revenues				
Rental properties revenue	\$ 255	\$ 362	\$ 186	\$ 1,079
Expenses				
Rental properties operating expenses	96	(47)	(133)	339
Interest	–	69	–	144
Depreciation of rental properties	28	84	58	169
Amortization of deferred leasing costs	14	119	29	267
	138	225	(46)	919
Income before the undernoted item	117	137	232	160
Gain (loss) on sale of rental properties, net	3,236	(25)	3,212	217
Income from discontinued operations before non-controlling interest	3,353	112	3,444	377
Income attributable to non-controlling interest	(10)	(37)	(36)	(122)
Income from discontinued operations	\$ 3,343	\$ 75	\$ 3,408	\$ 255

19. 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

As part of an acquisition in 2004, the Trust acquired leases relating to three buildings in Montréal that allow the tenants, subject to various conditions, to purchase the building they occupy from the Trust. Proceeds from these sales will be at amounts that approximate fair market value. In addition, through acquisitions completed in 2004 and 2005, the Trust has acquired leases that provide, in certain circumstances, for some tenants to require the Trust to expand their existing premises through building construction on certain existing and certain adjacent lands. The terms of these leases include various provisions including renewal obligations on the tenants' existing premises and agreement on the terms of the new space. Furthermore, certain of these leases include provisions that would allow the Trust to charge rates to recover a reasonable return on its investment. The Trust has 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 third quarter of 2006.

The Trust has entered into conditional contracts to acquire an additional \$43,802 of rental properties.

20. SUPPLEMENTARY CASH FLOW INFORMATION

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2006	2005	2006	2005
Decrease in accounts receivable	\$ 993	\$ 3,282	\$ 200	\$ 2,916
Decrease in deferred costs (other than leasing costs)	135	239	399	558
Increase in prepaid expenses and other assets (excluding restricted cash and mezzanine loans)	(1,832)	(2,014)	(2,671)	(2,154)
Increase in accounts payable and accrued liabilities (excluding leasing costs)	5,410	5,011	6,759	6,336
Increase (decrease) in accounts payable relating to leasing costs	885	179	394	(1,670)
Change in non-cash working capital	\$ 5,591	\$ 6,697	\$ 5,081	\$ 5,986

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2006	2005	2006	2005
Interest	\$ 15,515	\$ 13,602	\$ 30,891	\$ 23,874
Income and large corporations taxes	1	-	6	-

21. INTERNALIZATION OF PROPERTY MANAGER

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

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

In conjunction with the transaction, DMLP and DRC agreed to extend the term of the DRC Services Agreement under which DMLP provides administrative and advisory services to DRC for an additional five years to June 30, 2013 (see Note 17). Also, the terms of the LP Class B Units, Series 1 were amended to provide that they may not be transferred to a third party other than a subsidiary of the holder (see Note 13).

On closing, 450,000 LP Class B Units, Series 1 were issued for total consideration of \$12,393, of which \$417 was allocated to the net tangible assets of DMLP acquired and \$12,126 was expensed. The \$27.54 issue price per LP Class B Unit, Series 1 was estimated based on a five day weighted average trading price of REIT Units, Series A on the TSX with the midpoint being May 4, 2006, the date the substantive terms of the internalization were publicly announced, net of an implied discount for issuance costs.

Also on closing, 92,000 LP Class B Units, Series 1 were issued, placed in trust and enrolled in the DRIP to satisfy the maximum number of units that DRC may be entitled to receive on June 30, 2007. The cost of these units will be expensed and added to cumulative capital as qualifying properties are acquired. Any units that are not ultimately issued to DRC as additional consideration will be returned to DMLP for cancellation. During the six months ended June 30, 2006, DPLP acquired \$220,600 of qualifying properties and accordingly an additional amount of \$964 was expensed and added to cumulative capital representing the cost of the additional 35,016 LP Class B Units, Series 1 DRC will be entitled to receive on June 30, 2007.

22. DISPOSITION OF REVENUE PROPERTY

On June 2, 2006, the Trust completed the sale of a 50% interest in Greenbriar Mall located in Atlanta for net proceeds of \$17,018 and recorded a \$216 gain on the sale. As a result of the disposition, the Trust released a \$3,686 cumulative foreign currency loss from its foreign currency translation adjustment which was recognized as part of the gain on disposal. The disposition of Greenbriar Mall has not been presented as a discontinued operation as the Trust still has a significant continuing involvement in its operations.

23. INCOME TAXES

During the quarter, the Trust recognized \$2,378 future tax expense related to the sale of its 50% interest in Greenbriar Mall. Also, as a result of the disposition, the Trust has an unrecognized tax asset relating to a terminal loss estimated to be \$1,600.

24. SUBSEQUENT EVENTS

On July 4, 2006, the Trust provided \$2,883 in mezzanine financing to acquire a 60% interest in development land located in Caledon, Ontario.

On July 21, 2006, the Trust completed the purchase of Victoria Tower located in Regina, Saskatchewan for a purchase price of \$17,695. The property consists of a fourteen-storey office tower in downtown Regina totaling 144,164 square feet.

On August 1, 2006, the Trust completed the purchase of 100 Legacy Road located in Ottawa, Ontario for a purchase price of \$8,901. The property consists of a single tenant industrial building totaling 103,438 square feet.

On August 4, 2006, the Trust purchased a 10% interest in 10079-10081 Jasper Avenue in Edmonton, Alberta for a purchase price of \$304. The property, which is classified as redevelopment, is adjacent to two existing properties owned by the Trust and the Trust has the option to acquire the remaining 90% interest.



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