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LETTER TO UNITHOLDERS

WE ARE HAVING AN EXCELLENT YEAR SO FAR. THE BENEFITS OF OUR OPERATIONAL AND ACQUISITION STRATEGY ARE CLEARLY EVIDENCED BY THE CONSISTENT GROWTH OF OUR KEY PERFORMANCE INDICATORS. DUNDEE REIT HAS GROWN DRAMATICALLY THIS YEAR AND OUR TOTAL ASSET VALUE IS NOW MORE THAN 30% GREATER THAN AT THE BEGINNING OF THE YEAR. AS A RESULT OF OUR GROWTH, OUR PORTFOLIO HAS BEEN REPOSITIONED WITH A MORE INTENSE FOCUS ON OFFICE PROPERTIES AND ON WESTERN CANADA.

After completing a significant number of transactions in the first half of the year, we focused our efforts during the third quarter on integrating the properties acquired into our operations. In addition, we closed on another \$78 million of revenue-producing properties. Our earnings momentum continues to grow as evidenced by 34% growth in revenue, 41% growth in total net operating income (“NOI”) and 3% growth in comparative property NOI, as well as an impressive 57% growth in funds from operations (“FFO”) and a 9% increase in FFO per unit.

This is the fifth consecutive quarter that our comparative property portfolio has produced growth. Improving comparative property performance is the most valuable way to grow as it is fuelled by occupancy and rental rates and costs significantly less than growing through acquisitions. Acquisitions, however, remain a key ingredient to our success. Properties acquired over the comparative period have performed very well, making meaningful contributions to both net operating income and funds from operations on a per unit basis. Other driving forces behind our results include interest rates, which continue to decline resulting in savings on interest expense, and the benefits of a fully internalized property manager, which is outperforming our expectations. With all of our growth, one would expect a more dramatic increase in our general and administrative expenses. In fact, general and administrative costs have not increased proportionately with our size, and our ability to recover more of our costs and spread them over a larger portfolio has also helped drive our earnings.

The Canadian economy remains strong, with particularly robust economic conditions in Western Canada. Our portfolio is regionally diverse and our operations in each market either reflect the general conditions of that market or are performing slightly better than average. Our greatest opportunities for continued incremental improvements in comparative property performance will be through increasing rental rates and achieving greater operational efficiencies. With nearly full economic occupancy across our portfolio, we do not currently view occupancy as an area of significant opportunity for improving performance. It is our expectation that comparative properties will continue to produce consistent results, with the exception of Alberta, which holds the promise of above average increases in rental rates as leases are renewed or new leases are signed.

The message of our solid performance is spreading and the investment community is responding. Our unit price has continued its upward trend throughout the year. The total year-to-date return to our unitholders, including the impact of distributions, is over 43%. With a better unit price and lower cost of debt, our cost of capital has declined significantly. While the price of properties has continued to increase, this is offset by a lower cost of capital and results in acquisitions being more accretive now than six months ago. As long as we are able to source the appropriate opportunities, it is our intent to continue our acquisition momentum.

I would be remiss if I did not address the announcement made by the federal Minister of Finance on October 31, 2006, announcing a new tax on publicly traded income trusts. The new regime will apply to Specified Investment Flow-Throughs (“SIFTs”), which include certain publicly listed income trusts and publicly listed partnerships. Our understanding is that certain real estate investment trusts are excluded from the SIFT definition, and therefore are not subject to the new regime. At this time we believe that Dundee REIT will be excluded. Draft legislation implementing the changes has not yet been released. We are evaluating the announcement and will review the draft legislation when it is available to determine the future impact, if any, on Dundee REIT. Ultimately, this new legislation will be a net benefit for Dundee REIT as there will no longer be uncertainty about our future tax treatment and there will be less competition from other income trusts for income oriented investors.

In summary, the Canadian real estate markets are in very good shape and continue to provide us with good opportunities. We continue to find attractive options to grow and our organization is functioning very well and meeting the demands presented by our growth with enthusiasm and proficiency. Our financial performance has maintained its upward momentum such that the investment community has confidence that we are generating more income than we pay in distributions. With this recognition has come a positive reaction from the stock market. Overall, we are very pleased with our progress so far this year and are excited about the opportunities ahead of us.



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 September 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 November 2, 2006. Dundee REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in our filings with securities regulators, including the latest annual information form of Dundee REIT. These filings are also available on our website at www.dundeereit.com.

All dollar amounts in our tables are presented in thousands with the exception of unit and per unit amounts. For simplicity, throughout this discussion we may use "Units" in reference to our REIT Units, Series A. Certain market information has been obtained from CB Richard Ellis Market View, 3rd 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 September 30, 2006, approximately 30% of our total units were enrolled in the DRIP or the equivalent plan for limited partnerships units, including 8% of REIT Units, Series A and 100% of LP Class B Units, Series 1 (please see a description of our equity on page 6).

	January	February	March	April	May	June	July	August	September
Distribution Rate	\$ 0.183	\$ 0.183	\$ 0.183	\$ 0.183	\$ 0.183	\$ 0.183	\$ 0.183	\$ 0.183	\$ 0.183
Month-end									
Closing Price	\$ 26.49	\$ 27.77	\$ 27.80	\$ 28.63	\$ 28.11	\$ 28.20	\$ 28.75	\$ 31.75	\$ 34.58

OUR STRATEGY

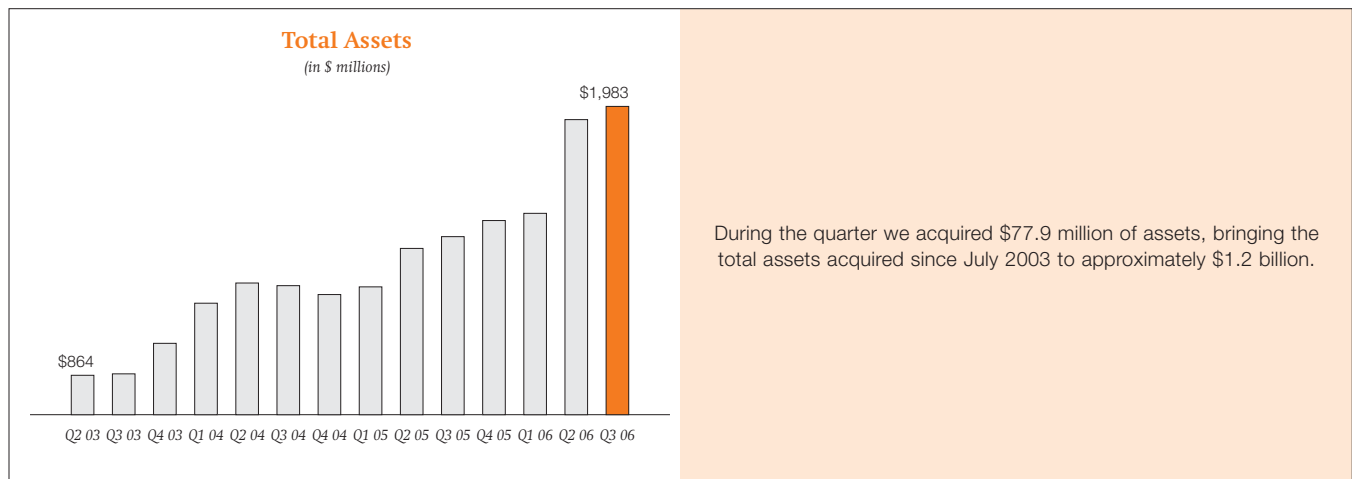
Our strategy is to become Canada's leading provider of affordable business premises. Our methodology to meet our strategy and objectives includes:

- 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 on 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 added three properties totalling 0.7 million square feet to our portfolio: an office building in Regina, an industrial building in Ottawa, and a mixed use commercial complex in Toronto. The aggregate purchase price for these properties was \$70.7 million and was funded through \$8.6 million of assumed debt with the remainder paid in cash. In addition, we acquired three parcels of development land for approximately \$7.3 million.



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

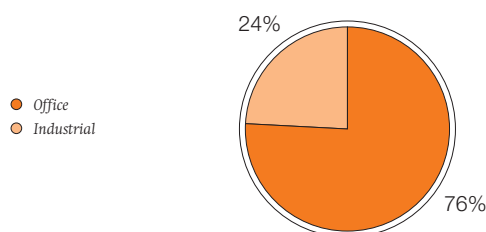
(\$000s)	September 30, 2006 ⁽¹⁾⁽²⁾				December 31, 2005 ⁽¹⁾⁽²⁾	
	Office	Industrial	Total	%	Total	%
Québec	\$ 179,470	\$ 132,861	\$ 312,331	18	\$ 289,797	23
National Capital Region	228,811	8,257	237,068	14	232,775	18
Toronto Region	333,493	140,532	474,025	28	416,996	32
Alberta	377,571	128,755	506,326	30	281,002	22
Western Canada	165,386	–	165,386	10	58,424	5
Total at September 30, 2006	\$ 1,284,731	\$ 410,405	\$ 1,695,136	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 \$23,327 related to Greenbriar Mall and \$7,148 related to other redevelopment properties (December 31, 2005 – \$49,401).

(2) Excludes discontinued operations.

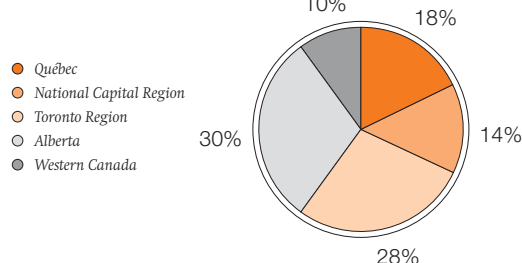
Portfolio Asset Type by Net Book Value

(at September 30, 2006)



Geographic Distribution of Rental Properties by Net Book Value

(at September 30, 2006)



Owned Gross Leasable Area (square feet) ⁽¹⁾

	September 30, 2006				December 31, 2005	
	Office	Industrial	Total	%	Total	%
Québec	1,826,662	3,336,022	5,162,684	29	4,822,052	32
National Capital Region	1,600,414	103,438	1,703,852	9	1,600,446	11
Toronto Region	3,076,936	2,466,923	5,543,859	31	4,865,530	32
Alberta	2,054,862	2,402,894	4,457,756	25	3,481,764	23
Western Canada	1,058,587	–	1,058,587	6	275,047	2
Total at September 30, 2006	9,617,461	8,309,277	17,926,738	100	15,044,839	100
Percentage	54%	46%	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.

Office Rental Properties

Dundee REIT owns 104 office properties (127 buildings) comprising approximately 9.6 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 2.2 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 96.4%, in line with 96.3% at December 31, 2005, however, still ahead of the national industry average of 91.7% (CB Richard Ellis, Canadian Office Market View, 3rd 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 126 prime suburban industrial and prestige industrial properties (143 buildings) comprising approximately 8.3 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 0.7 million square feet of well occupied high-quality industrial properties to our portfolio.

At September 30, 2006, the average occupancy rate across our industrial portfolio was 95.9%, 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, 3rd 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. Other than those properties completed on a build-to-suit basis, 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 independently own 60 acres of commercial development land located mainly in Edmonton, which is being held for future development.

Three 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 September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
<i>(\$000s except rental rates, unit and per unit amounts)</i>				
Operations				
Occupancy rate (period end) ⁽¹⁾	96.2%	96.1%		
In-place rent per square foot (office and industrial) ⁽¹⁾	\$ 9.71	\$ 9.26		
Leasing costs	1,466	2,984	\$ 7,750	\$ 9,363
Net operating income as a % of rental property revenue	59%	56%	58%	55%
Investment				
Acquisition activity	\$ 70,682	\$ 57,145	\$ 455,604	278,383
Building improvements	1,382	1,648	5,584	3,974
Acquisition of development land	7,262	718	39,267	718
Financing				
Weighted average interest rate (period end)	5.96%	6.17%		
Interest coverage ratio ⁽²⁾	2.50 times	2.18 times	2.38 times	2.21 times
Debt-to-gross book value	56.0%	61.7%		
Average term to maturity (years)	6.0	6.0		
Operating Results				
Rental properties revenue	\$ 76,778	\$ 57,385	\$ 205,799	\$ 160,224
Net operating income ⁽³⁾ ("NOI")	45,398	32,169	118,608	88,238
Funds from operations ⁽⁴⁾ ("FFO")	26,890	17,181	68,101	48,491
Distributions				
Distributable income ⁽⁵⁾	\$ 23,869	\$ 15,990	\$ 62,350	\$ 43,883
Reinvestment to distribution ratio ⁽⁶⁾⁽⁷⁾	30.1%	46.2%	32.3%	43.1%
Cash distribution ratio	69.9%	53.8%	67.7%	56.9%
Per unit amounts				
Basic:				
FFO	\$ 0.74	\$ 0.68	\$ 2.08	\$ 1.93
Distributable income	0.66	0.63	1.91	1.75
Distribution rate	0.55	0.55	1.65	1.65
Distributions as a % of distributable income	85.5%	89.0%	88.3%	96.0%
Diluted: ⁽⁸⁾				
FFO	\$ 0.70	\$ 0.63	\$ 1.97	\$ 1.83
Distributable income	0.63	0.59	1.82	1.68
Units outstanding (period end)				
REIT Units, Series A	28,964,094	17,204,683		
LP Class B Units, Series 1	8,834,204	8,337,365		
Total units outstanding	37,798,298	25,542,048		

(1) Excludes redevelopment properties.

(2) 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, loss on disposal of rental property, internalization of property manager, depreciation, amortization and interest expense.

(3) NOI – rental property revenues less operating expenses.

(4) FFO – The reconciliation of FFO to net income can be found on page 15.

(5) The reconciliation of distributable income to cash generated from operating activities can be found on page 16.

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

(7) Includes October 15, 2006 reinvestment of distributions declared in September 2006.

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

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:

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005 <i>(restated)</i>	2006	2005 <i>(restated)</i>
Cash generated from operating activities	\$ 22,058	\$ 16,351	\$ 63,859	\$ 49,788
Cash utilized in investing activities	(73,865)	(52,328)	(377,335)	(220,234)
Cash generated from financing activities	41,748	36,770	310,073	159,073
Increase (decrease) in cash and cash equivalents	\$ (10,059)	\$ 793	\$ (3,403)	\$ (11,373)

At September 30, 2006, cash and cash equivalents were \$13.1 million, a decrease of \$10.1 million compared to the prior quarter and \$3.4 million compared to December 31, 2005. The decrease was a result of the cash flows indicated above, including the impact of acquisitions, new financing activity and equity issues. We have an \$80 million revolving credit facility, of which approximately \$62.5 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:

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Net income	\$ 6,823	\$ 2,223	\$ 3,266	\$ 9,324
Non-cash items:				
Depreciation of rental properties	10,824	8,053	28,648	21,626
Amortization of deferred leasing costs, tenant improvements and intangibles	9,007	5,765	21,259	14,067
Amortization of deferred financing costs	619	440	1,477	1,137
Amortization of marked-to-market adjustment on acquired debt	(521)	(426)	(1,383)	(1,595)
Internalization of property manager	(27)	-	13,063	-
Loss (gain) on disposal of rental properties	415	-	(3,013)	(217)
Deferred unit compensation expense	276	240	816	587
Future income taxes	(202)	259	2,425	634
Amortization of market rent adjustments on acquired leases	(1,895)	(109)	(2,502)	(250)
Straight-line rent adjustment	(911)	(904)	(2,397)	(2,849)
Dilution gain	-	(269)	-	(1,594)
Non-controlling interest	-	986	1,876	3,804
	24,408	16,258	63,535	44,674
Deferred leasing costs incurred	(972)	(831)	(3,745)	(2,838)
Change in non-cash working capital	(1,378)	924	4,069	7,952
Cash generated from operating activities	\$ 22,058	\$ 16,351	\$ 63,859	\$ 49,788

The change in cash generated from operations during the three- and nine-month periods primarily reflects the impact of acquisitions. The variance in the change in non-cash working capital over the prior quarter mainly reflects a decrease in accounts payable.

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 September 30, 2006, the deferred amount remaining for recovery in future periods was \$6.7 million (December 31, 2005 – \$7.5 million).

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

Performance Indicators	September 30, 2006 ⁽¹⁾	December 31, 2005 ⁽²⁾
<i>Operating Activities</i>		
Occupancy level ⁽¹⁾	96.2%	96.2%
Tenant maturity profile – average term to maturity (years)		
Office	4.6 years	4.8 years
Industrial	4.3 years	4.3 years
In-place rental rates (office and industrial average)	\$ 9.71	\$ 9.36
NOI as a percentage of rental property revenue	59.1%	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 rental rate is approximately 35% higher than our 2006 expiring rental rate. While this is a positive indicator, the marketplace remains competitive and any uplift in our overall average rent will depend on the amount of space rolling into the higher net rental rates. Occupancy levels and rental rates are discussed under our results of operations beginning on page 17.

Leasing Costs and Tenant Improvements

Leasing costs and tenant improvements were \$1.5 million and \$7.5 million for the three- and nine-month periods representing reductions of \$1.3 million for both the quarter and year-to-date. The majority of this reduction is due to timing of tenant improvement work. It is important to note that while our portfolio has grown, the properties acquired generally have longer term leases and our tenant improvement costs have not increased proportionately.

Performance Indicators	Office ⁽¹⁾	Industrial	Total
<i>Operating Activities</i>			
Portfolio size (sq. ft.)	9,617,461	8,309,277	17,926,738
Occupied and committed	96.4%	95.9%	96.2%
Square footage leased and occupied in 2006	725,814	1,271,519	1,997,333
Leasing costs and tenant improvements (\$000s)	\$ 5,437	\$ 2,095	\$ 7,532
Leasing costs and tenant improvements (per sq. ft.)	\$ 7.49	\$ 1.65	\$ 3.77

(1) Excludes redevelopment properties.

The table below provides our annualized estimates of expected leasing activity and leasing costs for the next three years. These estimates are based on our portfolio at the end of the second quarter and assume that market conditions remain consistent with our current experience.

	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 (\$000s)	\$ 9,600	\$ 3,800

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 improvements 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:

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Investment in rental properties	\$ (2,745)	\$ (1,719)	\$ (6,514)	\$ (4,124)
Investment in tenant improvement	(494)	(2,153)	(4,005)	(6,525)
Investment in land development	(764)	–	(1,056)	–
Acquisition of rental properties and land	(67,928)	(50,092)	(386,527)	(220,503)
Acquisition deposit on rental properties	600	500	–	(175)
Investment in mezzanine loan	(1,420)	–	(3,655)	(750)
Net proceeds from disposal of rental properties	(337)	–	25,000	2,254
Change in restricted cash, net	(777)	1,136	(578)	9,589
Cash utilized in investing activities	\$ (73,865)	\$ (52,328)	\$ (377,335)	\$ (220,234)

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

Performance Indicators (\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
<i>Investing Activities</i>				
Acquisition of rental properties	\$ 70,682	\$ 57,145	\$ 455,604	\$ 278,383
Building improvements	\$ 1,382	\$ 1,648	\$ 5,584	\$ 3,974
Acquisition of land	\$ 7,262	\$ 718	\$ 39,267	\$ 718

Acquisitions and Dispositions

During the quarter, we acquired \$77.9 million of rental properties, land and related intangible assets funded by \$67.9 million in cash and an \$8.6 million assumed mortgage. A summary of these acquisitions is provided on page 26. Acquisitions completed during 2005 and 2006 have increased net operating income by approximately \$11.3 million compared to 2005.

Building Improvements

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Building improvements:				
Recurring recoverable	\$ 719	\$ 328	\$ 2,760	\$ 836
Recurring non-recoverable	99	772	197	822
Non-recurring	564	548	2,627	2,316
Total	\$ 1,382	\$ 1,648	\$ 5,584	\$ 3,974

For the three-month period, capital expenditures or expenditures accrued for rental property building improvements and equipment were \$1.4 million (September 30, 2005 – \$1.6 million). Recurring recoverable costs incurred in the quarter included \$0.7 million for various roof and chiller repairs. Non-recurring costs in the quarter included \$0.6 million of construction costs related to various projects. For the nine-month period, non-recurring costs included \$1.3 million to complete a build-to-suit project and \$0.7 million in capitalized carrying costs for a property under redevelopment with the remainder relating to miscellaneous construction projects. The tenant took occupancy of the build-to-suit project and began paying rent 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 expenditures associated with the current quarter acquisitions are expected to be approximately \$1.4 million, and for acquisitions completed year-to-date are expected to be approximately \$7.8 million. These expenditures were factored into the purchase price paid for our acquisitions.

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 \$1.9 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. Occupancy currently exceeds 85% and we will exercise our option to acquire these properties in the fourth quarter 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 major Canadian markets. We have a 60% ownership interest in the joint venture. Other than those properties constructed on a build-to-suit basis for third parties, we have the first option to acquire the completed properties once they reach a predetermined occupancy requirement at a discount to the then current market value. As part of the agreement, we are to provide mezzanine financing equal to 90% of any funding requirement not otherwise provided by third-party lenders, up to a maximum of \$45.0 million. We are also required to guarantee, when necessary, 90% of financing obtained from third parties. As at September 30, 2006, we have funded \$9.1 million and provided a guarantee on \$8.3 million of third-party financing related to two development projects in suburban Toronto that we expect will yield about 60 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.

Location	Property Type	Acres	Investment (\$000s)	Development Capacity (sq. ft.)	Status
<i>Redevelopment Properties</i>					
2280 boul. Alfred Nobel, Montréal	office	–	\$ 6,847	85,394	Construction is complete and the property is 25% leased.
Gallery Building, Yellowknife	office	–	301	25,000	
Greenbriar Mall, Atlanta	retail	–	23,327	397,695	Property being redeveloped by our co-owner.
		–	\$ 30,475	508,089	
<i>Current Development</i>					
ACCW, Toronto (JV)		24	\$ 11,226	345,000	Construction is complete and the property is over 85% leased.
Barker Business Park, Richmond Hill (JV)	office/ind.	40	6,183	860,000	Site works, pre-leasing
Tullamore Business Park, Brampton (JV)	industrial	19	2,954	375,000	Site works, pre-leasing
Sunwapta Business Park, Edmonton	office/ind.	39	10,066	800,000	Site works, pre-leasing
		122	\$ 30,429	2,380,000	
<i>Development Opportunities</i>					
Palladium Lands, Ottawa	office	3	\$ 800	81,000	Future development land, currently earning parking revenue.
10089 and 10079 Jasper Ave., Edmonton	office		4,271	250,000	Future development land
Speakman Project, Mississauga	office	14	–	100,000	Future development land
Station Tower Lands, Surrey	office	3	3,734	500,000	Future development land
Niven Lake Lands, Yellowknife	–	10	705	200,000	Acquired as part of a larger acquisition.
		30	\$ 9,510	1,131,000	
<i>Held for Sale</i>					
Sunwapta Business Park, Edmonton	retail	11	\$ 7,560	200,000	
19th Street Lands, Saskatoon	retail	0.5	805	–	
		11.5	\$ 8,365	200,000	

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:

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Mortgages placed, net of costs	\$ 86,322	\$ 69,750	\$ 246,662	\$ 126,800
Mortgage principal repayments	(6,875)	(4,607)	(18,463)	(12,753)
Mortgage lump sum repayments	(34,131)	–	(47,057)	(39,698)
Term debt principal repayments	(84)	(141)	(298)	(380)
Term debt lump sum repayments	–	–	(14,957)	(2,075)
Term debt placed, net of costs	203	–	6,095	–
Convertible debentures issued, net of costs	–	(216)	–	95,452
Demand revolving credit facility, net	10,362	(20,662)	10,362	21,577
Demand non-revolving credit facility	–	–	–	(6,107)
Distributions paid on REIT Units	(13,846)	(7,400)	(34,936)	(23,791)
Units issued, net of costs	(203)	46	162,665	48
Cash generated from financing activities	\$ 41,748	\$ 36,770	\$ 310,073	\$ 159,073

Debt

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

	September 30, 2006	December 31, 2005
<i>Financing Activities</i>		
Average interest rate	5.96%	6.16%
Level of debt (debt-to-gross book value)	56.0%	59.3%
Interest coverage ratio	2.50 times	2.19 times
Proportion of total debt due in the remainder of 2006	2.9%	7.2%
Debt – average term to maturity (years)	6.0	5.9
Variable rate debt as percentage of total debt	2.9%	1.6%

The interest coverage ratio, which reflects our ability to cover interest expense requirements, has improved steadily over the year to 2.50 times. This improvement reflects the reduction in our overall level of debt-to-gross book value to 56.0%, from 59.3% at the beginning of the year, as well as the lower average interest rate, now at 5.96% compared to 6.16% at the beginning of the year.

As a result of refinancing activity during the quarter, the proportion of total debt due in 2006 decreased to 2.9%. Our variable rate debt as a percentage of total debt increased during the quarter as a result of accessing our revolving credit facility. The use of the revolving credit facility is an interim measure and will be replaced with conventional mortgage debts or other long-term financing.

(\$000s)	September 30, 2006			December 31, 2005		
	Fixed	Variable	Total	Fixed	Variable	Total
Mortgages	\$ 1,022,930	\$ 18,570	\$ 1,041,500	\$ 756,920	\$ –	\$ 756,920
Term debt	2,259	5,526	7,785	271	15,062	15,333
Demand revolving credit facility	–	10,362	10,362	–	–	–
Debenture – 6.5%	28,841	–	28,841	72,478	–	72,478
Debenture – 5.7%	98,892	–	98,892	98,890	–	98,890
Total	\$ 1,152,922	\$ 34,458	\$ 1,187,380	\$ 928,559	\$ 15,062	\$ 943,621
Percentage	97.1%	2.9%	100%	98.4%	1.6%	100%

Mortgages payable include a \$10.2 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. During the nine-month period, \$44.0 million of debentures were converted. Amounts recorded as at September 30, 2006 for the 6.5% and 5.7% Debentures are net of the \$1.2 million premiums allocated to their conversion features. Further detail on the conversions is provided on page 14.

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.

<i>(\$000s)</i>	<i>September 30, 2006</i>
Total assets	\$ 1,982,509
Accumulated depreciation	111,241
Accumulated amortization of acquired intangibles and leasing costs	26,833
Gross book value	\$ 2,120,583
Outstanding debt	\$ 1,187,380
Unamortized discount component of convertible debentures	1,196
Total debt	\$ 1,188,576
Debt-to-gross book value	56%

At September 30, 2006, our debt-to-gross book value decreased to 56.0% (December 31, 2005 – 59.3%) mainly as a result of funding \$494.9 million of acquisitions with the proceeds of equity offerings totalling \$170.0 million, combined with net proceeds from dispositions totalling \$25.0 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 50.0%. 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 total cost added to the asset base. Comparative ratios have not been restated.

Financing Activity

During the third quarter we secured approximately \$86.5 million in new mortgage financing, resulting in a year-to-date total of approximately \$248.3 million in new mortgages. The new financing was completed with an average term to maturity of 8.7 years and an average interest rate of 5.61%. As a result, our overall average interest rate decreased to 5.96% and our average term to maturity was extended to 6.0 years.

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

<i>(\$000s)</i>	<i>Mortgages</i>	<i>Term Debt</i>	<i>Revolving Credit Facility</i>	<i>Convertible Debentures</i>	<i>Total</i>
Debt as at December 31, 2005	\$ 756,920	\$ 15,333	\$ –	\$ 171,368	\$ 943,621
New debt assumed on rental property acquisitions	103,030	217	–	–	103,247
New debt placed	248,345	6,095	41,000	–	295,440
Vendor take-back term loan	–	1,395	–	–	1,395
Scheduled repayments	(18,463)	(298)	–	–	(18,761)
Lump sum repayments	(47,057)	(14,957)	(30,638)	–	(92,652)
Conversion to unit equity	–	–	–	(44,045)	(44,045)
Marked-to-market and other adjustments	(1,275)	–	–	410	(865)
Debt as at September 30, 2006	\$ 1,041,500	\$ 7,785	\$ 10,362	\$ 127,733	\$ 1,187,380

In connection with acquisitions completed during the quarter, we assumed an \$8.6 million mortgage with a 7.8 year term to maturity at 5.55%.

(\$000s)	September 30, 2006					December 31, 2005
	Debt Maturities	Scheduled Principal Repayments on Non-matured Debt	Amount	%	Weighted interest rates %	
Remainder of 2006	\$ 26,447	\$ 7,541	\$ 33,988	3	5.56	\$ 67,801
2007	18,195	30,386	48,581	4	6.24	53,582
2008	109,323	30,200	139,523	12	6.49	111,186
2009	117,437	26,308	143,745	12	6.47	131,354
2010	38,629	23,558	62,187	5	4.84	53,516
2011 and thereafter	694,614	64,742	759,356	64	5.80	526,182
Total	\$ 1,004,645	\$ 182,735	\$ 1,187,380	100	5.96	\$ 943,621

Convertible Debentures

During the nine months ended September 30, 2006, we issued 1,761,205 Units upon the conversion of \$44.0 million of the principal amount of 6.5% Debentures and 5.7% Debentures.

During the third quarter, we issued 1,609,280 Units upon the conversion of \$40.2 million of the principal amount of 6.5% Debentures. Subsequent to quarter-end, we issued an additional 95,160 Units upon the conversion of \$2.4 million of the principal amount. The total principal amount presently outstanding is \$26.6 million, and is convertible into 1,065,560 Units.

During the third quarter, we issued 1,332 Units upon the conversion of \$0.04 million of the principal amount of 5.7% Debentures. Subsequent to quarter-end, we issued an additional 596,727 Units upon the conversion of \$17.9 million of the principal amount. The total principal amount presently outstanding is \$82.0 million, and is convertible into 2,733,633 Units.

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	644,425	11,823	656,248
Units issued pursuant to deferred unit investment plan	16,670	–	16,670
Units issued pursuant to unit purchase plan	12,585	–	12,585
Conversion of 6.5% Debentures	1,758,240	–	1,758,240
Conversion of 5.7% Debentures	2,965	–	2,965
Total units outstanding on September 30, 2006	28,964,094	8,834,204	37,798,298
Percentage of all units	77%	23%	100%
Units issued pursuant to DRIP on October 15, 2006	59,935	2,587	62,522
Units issued pursuant to unit purchase plan	447	–	447
Conversion of 6.5% Debentures	95,160	–	95,160
Conversion of 5.7% Debentures	596,727	–	596,727
Total units outstanding on October 31, 2006	29,716,363	8,836,791	38,553,154
Percentage of all units	77%	23%	

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.

(\$000s except per unit amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Net Income	\$ 6,823	\$ 2,223	\$ 3,266	\$ 9,324
Add (deduct):				
Depreciation of rental properties	10,824	8,053	28,648	21,626
Amortization of deferred leasing costs, tenant improvements and intangibles	9,007	5,765	21,259	14,067
Imputed amortization of leasing costs related to the rent supplement	68	168	613	858
Internalization of property manager	(27)	–	13,063	–
Loss (gain) on disposal of rental properties	415	–	(3,013)	(217)
Future income tax	(202)	259	2,425	634
Amortization of costs not specific to real estate operations				
incurred subsequent to June 30, 2003	(18)	(4)	(36)	(11)
Dilution gain	–	(269)	–	(1,594)
Non-controlling interest	–	986	1,876	3,804
FFO	\$ 26,890	\$ 17,181	\$ 68,101	\$ 48,491
FFO per unit – basic	\$ 0.74	\$ 0.68	\$ 2.08	\$ 1.93
FFO per unit – diluted	\$ 0.70	\$ 0.63	\$ 1.97	\$ 1.83

FFO per unit increased 9% over the comparative quarter primarily due to additional revenue generated by acquisitions as well as growth in occupancy and an 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. The weighted average number of units outstanding for basic and diluted FFO calculations for the third quarter is 36,350,416 and 42,292,776, respectively. Diluted FFO includes interest and amortization adjustments of \$2.7 million. Year-to-date, the weighted average number of units outstanding for basic and diluted FFO calculations are 32,708,950 and 38,853,505, respectively. Diluted FFO includes interest and amortization adjustments of \$8.4 million.

Below market rents, which result in a non-cash amortization to our operating results, positively impact our FFO. The impact of below market rents on diluted FFO for the three-month period was \$0.05, and year-to-date was \$0.08.

Distributions

Our Declaration of Trust requires us to make monthly cash distributions to our unitholders equal to at least 80% of distributable income on an annual basis. Amounts retained in excess of the distributions are used to fund leasing costs and capital expenditure requirements. Management disregards working capital when determining distributable income. Working capital tends to fluctuate with time and should not affect our distribution policy. In times of working capital deficiency, the high participation in our DRIP program provides the necessary cash to temporarily fund cash shortfalls.

Distributable income per unit for the nine-month period was \$1.91 and declared distributions were \$1.65, representing an 86% payout ratio. In the prior year comparative period, distributable income was \$1.75 per unit and declared distributions were \$1.65, representing a 94% payout ratio.

With the accretive growth of our portfolio, our funds from operations have reached an all-time high of \$0.74 per unit, further improving the sustainability of our distributions.

FFO PER UNIT
 9%

Distributable Income

(\$000s except per unit amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Cash Generated from Operating Activities	\$ 22,058	\$ 16,351	\$ 63,859	\$ 49,788
Add (deduct):				
Deferred leasing costs incurred	972	831	3,745	2,838
Amortization of deferred financing costs incurred prior to June 30, 2003	81	98	270	272
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	17	78	58	85
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(18)	(4)	(36)	(11)
Amortization of deferred financing costs	(619)	(440)	(1,477)	(1,137)
Change in non-cash working capital	1,378	(924)	(4,069)	(7,952)
Distributable income	\$ 23,869	\$ 15,990	\$ 62,350	\$ 43,883
Distributable income per unit – basic	\$ 0.66	\$ 0.63	\$ 1.91	\$ 1.75
Distributable income per unit – diluted	\$ 0.63	\$ 0.59	\$ 1.82	\$ 1.68
Distributions	\$ 0.55	\$ 0.55	\$ 1.65	\$ 1.65

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. In compliance with the Notice, the above table reconciles distributable income, as defined by our Declaration of Trust, to cash generated from operating activities.

Distributions

The distributions presented in the table below are comprised of \$40.4 million relating to REIT Units, Series A and \$14.7 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.

(\$000s)	Declared Distributions	4% Additional Distributions	Total
2006 Distributions			
Paid in cash or reinvested in units	\$ 47,464	\$ 622	\$ 48,086
Payable at September 30, 2006	6,910	80	6,990
Total distributions	\$ 54,374	\$ 702	\$ 55,076
2006 Reinvestment			
Reinvested to September 30, 2006	\$ 15,555	\$ 622	\$ 16,177
Reinvested on October 15, 2006	2,042	80	2,122
Total distributions reinvested	\$ 17,597	\$ 702	\$ 18,299
Distributions paid in cash	\$ 36,777		
Reinvestment to distribution ratio		32.4%	
Cash distribution payout ratio		67.6%	

Distributions declared in the nine months ended September 30, 2006 totalled \$54.4 million or 87% of distributable income, an increase of \$13.0 million over the comparative period. Of this amount, \$17.6 million or 32.4% 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 67.6%.

In the nine months of 2006, we declared \$14.7 million in distributions on LP B Units, which was satisfied by the issuance of 493,317 REIT Units, Series A and 14,409 LP Class B Units, Series 1.

Our Results of Operations

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Revenues				
Rental properties revenue	\$ 76,778	\$ 57,385	\$ 205,799	\$ 160,224
Interest and fee income	1,038	410	2,389	1,747
	77,816	57,795	208,188	161,971
Expenses				
Rental properties operating expenses	31,380	25,216	87,191	71,986
Interest	17,934	14,378	48,745	39,259
Depreciation of rental properties	10,824	7,967	28,591	21,371
Amortization of deferred leasing costs, tenant improvements and intangibles	9,007	5,565	21,230	13,600
General and administrative	1,688	1,362	4,951	3,768
	70,833	54,488	190,708	149,984
Income Before the Undernoted Items				
Internalization of property manager	27	–	(13,063)	–
Loss on disposal of rental property	(445)	–	(229)	–
Dilution gain	–	269	–	1,594
	6,565	3,576	4,188	13,581
Income Taxes				
Current income and large corporations taxes	(81)	44	40	132
Future income taxes	(202)	259	2,425	634
	(283)	303	2,465	766
Income before non-controlling interest and discontinued operations				
	6,848	3,273	1,723	12,815
Income attributable to non-controlling interest				
	–	(1,007)	(1,840)	(3,703)
Income (loss) before discontinued operations				
	6,848	2,266	(117)	9,112
Discontinued operations				
	(25)	(43)	3,383	212
Net income				
	\$ 6,823	\$ 2,223	\$ 3,266	\$ 9,324

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 \$6.2 million or 24% increase in operating expenses over the comparative quarter mainly reflects the additional costs of managing a larger portfolio of properties.

Interest Expense

The \$3.6 million or 25% increase in interest expense for the three-month period was mainly the result of 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 5.96% compared with 6.17% at September 30, 2005.

Depreciation of Rental Properties

Depreciation increased by \$2.9 million or 36% compared with the same quarter in 2005 mainly as a result of acquisitions.

Amortization of Deferred Leasing Costs, Tenant Improvements and Intangibles

Amortization increased by \$3.4 million or 62% over the comparative period, largely due to the allocation of a portion of the purchase price on new acquisitions to intangibles.

General and Administrative Expenses

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 \$1.7 million, an increase of \$0.3 million over the comparative period reflecting the growth of our business and the internalization of the property manager.

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 LP. 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. As a result of the reclassification of the LP B Units to equity effective May 1, 2006, no further dilution gain will be reported.

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.

Discontinued Operations

Discontinued operations include 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 income statement and balance sheet.

Revenue generated by acquisitions and strong performance by our office portfolio resulted in a 41% increase in total NOI in the third quarter.

NOI
^41%
YEAR-OVER-YEAR

Net Operating Income (“NOI”)

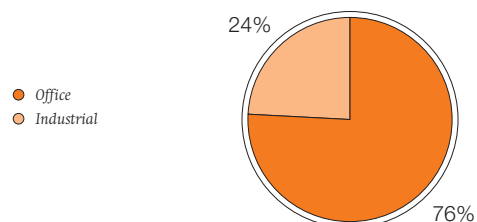
Net operating income is an important measure used by management to evaluate the operating performance of the properties. We define NOI as the total of rental property revenues less rental property operating expenses. NOI for the quarter increased 41% over the comparative period, primarily due to income generated by properties acquired in 2006, and properties acquired in the second half of 2005 that contribute to the full current year. Redevelopment properties include 2280 Alfred Nobel, Montréal, Gallery Building, Yellowknife and Greenbriar Mall, Atlanta.

(\$000s)	Three Months Ended September 30				Nine Months Ended September 30			
	2006	2005	Growth		2006	2005	Growth	
			Amount	%			Amount	%
Office	\$ 34,046	\$ 22,191	\$ 11,855	53	\$ 85,652	\$ 60,433	\$ 25,219	42
Industrial	10,916	9,018	1,898	21	30,536	24,836	5,700	23
NOI	44,962	31,209	13,753	44	116,188	85,269	30,919	36
Redevelopment	436	960	(524)		2,420	2,969	(549)	
Discontinued operations	(55)	291	(319)		264	1,031	(767)	
NOI including redevelopment and discontinued operations	\$ 45,343	\$ 32,460	\$ 12,910	40	\$ 118,872	\$ 89,269	\$ 29,603	33

(\$000s)	Three Months Ended September 30				Nine Months Ended September 30			
	2006	2005	Growth		2006	2005	Growth	
			Amount	%			Amount	%
Québec	\$ 8,899	\$ 7,666	\$ 1,233	16	\$ 25,642	\$ 19,913	\$ 5,729	29
National Capital Region	6,263	4,564	1,699	37	18,027	11,914	6,113	51
Toronto Region	11,901	10,251	1,650	16	34,589	29,235	5,354	18
Alberta	13,423	7,434	5,989	81	29,135	20,278	8,857	44
Western Canada	4,476	1,294	3,182	246	8,795	3,929	4,866	124
NOI	44,962	31,209	13,753	44	116,188	85,269	30,919	36
Redevelopment	436	960	(524)		2,420	2,969	(549)	
Discontinued operations	(55)	291	(319)		264	1,031	(767)	
NOI including redevelopment and discontinued operations	\$ 45,343	\$ 32,460	\$ 12,910	40	\$ 118,872	\$ 89,269	\$ 29,603	33

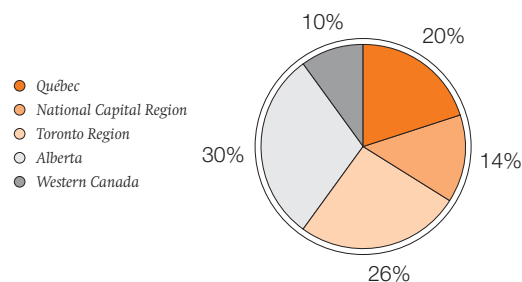
NOI by Segment

(Three months ended September 30, 2006)



NOI by Region

(Three months ended September 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.

(\$000s)	Three Months Ended September 30				Nine Months Ended September 30			
	2006	2005	Growth		2006	2005	Growth	
			Amount	%			Amount	%
Office	\$ 18,259	\$ 17,549	\$ 710	4	\$ 54,111	\$ 51,096	\$ 3,015	6
Industrial	7,394	7,319	75	1	21,547	21,271	276	1
Comparative properties	25,653	24,868	785	3	75,658	72,367	3,291	5
Redevelopment	428	941	(513)		2,312	2,915	(603)	
Acquisitions	16,189	4,859	11,330		34,568	8,042	26,526	
Rent supplement	323	486	(163)		1,186	1,814	(628)	
GAAP adjustments	2,805	1,015	1,790		4,884	3,100	1,784	
NOI	45,398	32,169	13,229	41	118,608	88,238	30,370	34
Discontinued operations	(55)	291	(319)		264	1,031	(767)	
NOI including discontinued operations	\$ 45,343	\$ 32,460	\$ 12,910	40	\$ 118,872	\$ 89,269	\$ 29,603	33

(\$000s)	Three Months Ended September 30				Nine Months Ended September 30			
	2006	2005	Growth		2006	2005	Growth	
			Amount	%			Amount	%
Québec	\$ 5,208	\$ 5,195	\$ 13	-	\$ 15,420	\$ 15,201	\$ 219	1
National Capital Region	3,620	3,377	243	7	10,707	10,011	696	7
Toronto Region	8,807	8,125	682	8	25,666	24,501	1,165	5
Alberta	6,678	6,874	(196)	(3)	19,815	18,762	1,053	6
Western Canada	1,340	1,297	43	3	4,050	3,892	158	4
Comparative properties	25,653	24,868	785	3	75,658	72,367	3,291	5
Redevelopment	428	941	(513)		2,312	2,915	(603)	
Acquisitions	16,189	4,859	11,330		34,568	8,042	26,526	
Rent supplement	323	486	(163)		1,186	1,814	(628)	
GAAP adjustments	2,805	1,015	1,790		4,884	3,100	1,784	
NOI	45,398	32,169	13,229	41	118,608	88,238	30,370	34
Discontinued operations	(55)	291	(319)		264	1,031	(767)	
NOI including discontinued operations	\$ 45,343	\$ 32,460	\$ 12,910	40	\$ 118,872	\$ 89,269	\$ 29,603	33

The increase in comparative NOI was driven by strong performance by our office portfolio nationally, and reflects occupancy growth as well as some improvement in rental rates.

The rent supplement from DRC contributed \$0.3 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 space, offset by pre-June 30, 2006 adjustments to industrial space.

Comparative Office Portfolio

(\$000s)	Three Months Ended September 30				Nine Months Ended September 30			
	2006	2005	Growth		2006	2005	Growth	
			Amount	%			Amount	%
Québec	\$ 2,798	\$ 2,721	\$ 77	3	\$ 8,480	\$ 8,098	\$ 382	5
National Capital Region	3,620	3,377	243	7	10,707	10,011	696	7
Toronto Region	6,727	6,047	680	11	19,655	18,372	1,283	7
Alberta	3,774	4,107	(333)	(8)	11,219	10,723	496	5
Western Canada	1,340	1,297	43	3	4,050	3,892	158	4
Comparative properties	18,259	17,549	710	4	54,111	51,096	3,015	6
Redevelopment	428	941	(513)		2,312	2,915	(603)	
Acquisitions	13,441	3,701	9,740		27,310	5,857	21,453	
Rent supplement	(97)	207	(304)		406	1,128	(722)	
GAAP adjustments	2,451	753	1,698		3,933	2,406	1,527	
Office NOI	34,482	23,151	11,331	49	88,072	63,402	24,670	39
Discontinued operations	(55)	291	(319)		264	1,029	(765)	
NOI including discontinued operations	\$ 34,427	\$ 23,442	\$ 11,012	47	\$ 88,336	\$ 64,431	\$ 23,905	37

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 and higher rental rates achieved on renewals and new leasing. While NOI in the Alberta region appears to be down in the three-month period, the prior quarter results included the impact of a one-time \$0.5 million lease surrender payment coupled with the re-leasing of the space at increased rental rates. Results reported by the Toronto region in the prior year period were impacted by a \$0.4 million one-time expense. Total NOI grew by \$11.3 million and \$24.7 million in the respective three- and nine-month periods fuelled by the contribution from acquisitions.

Comparative Industrial Portfolio

(\$000s)	Three Months Ended September 30				Nine Months Ended September 30			
	2006	2005	Growth		2006	2005	Growth	
			Amount	%			Amount	%
Québec	\$ 2,410	\$ 2,474	\$ (64)	(3)	\$ 6,940	\$ 7,103	\$ (163)	(2)
Toronto Region	2,080	2,078	2	-	6,011	6,129	(118)	(2)
Alberta	2,904	2,767	137	5	8,596	8,039	557	7
Comparative properties	7,394	7,319	75	1	21,547	21,271	276	1
Acquisitions	2,748	1,158	1,590		7,258	2,185	5,073	
Rent supplement	420	279	141		780	686	94	
GAAP adjustments	354	262	92		951	694	257	
Industrial NOI	10,916	9,018	1,898	21	30,536	24,836	5,700	23
Discontinued operations	-	-	-		-	2	(2)	
NOI including discontinued operations	\$ 10,916	\$ 9,018	\$ 1,898	21	\$ 30,536	\$ 24,838	\$ 5,698	23

Comparative industrial property performance was virtually flat for both the three- and nine-month periods. Strong occupancy driven results in Alberta offset slightly weaker results in the balance of our portfolio. Total NOI improved by \$1.9 million and \$5.7 million in the respective three- and nine-month periods, again, fuelled by the contribution from acquisitions. Effective July 1, 2006, the rent supplement for industrial space expired. The \$0.4 million recognized during the quarter reflects adjustments for vacant space until June 30, 2006.

NOI Prior Quarter Comparison

Overall, comparative properties are maintaining a high level of occupancy, achieving incremental improvements in rental rates and producing modest growth in NOI. Total NOI grew 19% quarter-over-quarter largely reflecting the impact of acquisitions as well as leasing activity in the Toronto Region.

(\$000s)	Three Months Ended		Growth	
	September 30, 2006	June 30, 2006	Amount	%
Office	\$ 18,259	\$ 18,039	\$ 220	1
Industrial	7,394	7,085	309	4
Comparative properties	25,653	25,124	529	2
Redevelopment	428	932	(504)	
Acquisitions	16,189	10,756	5,433	
Rent supplement	323	398	(75)	
GAAP adjustments	2,805	1,097	1,708	
NOI	45,398	38,307	7,091	19
Discontinued operations	(55)	159	(214)	
NOI including discontinued operations	\$ 45,343	\$ 38,466	\$ 6,877	18

(\$000s)	Three Months Ended		Growth	
	September 30, 2006	June 30, 2006	Amount	%
Québec	\$ 5,208	\$ 5,101	\$ 107	2
National Capital Region	3,620	3,606	14	-
Toronto Region	8,807	8,345	462	6
Alberta	6,678	6,717	(39)	(1)
Western Canada	1,340	1,355	(15)	(1)
Comparative properties	25,653	25,124	529	2
Redevelopment	428	932	(504)	
Acquisitions	16,189	10,756	5,433	
Rent supplement	323	398	(75)	
GAAP adjustments	2,805	1,097	1,708	
NOI	45,398	38,307	7,091	19
Discontinued operations	(55)	159	(214)	
NOI including discontinued operations	\$ 45,343	\$ 38,466	\$ 6,877	18

NOI from comparative properties is up 5% for the first nine months of the year, reflecting occupancy growth as well as some improvement in rental rates.

9 MONTH COMPARATIVE NOI

^5%

Leasing Profile

The overall percentage of occupied and committed space across our rental properties portfolio was 96.2% at quarter end. Both our average office and industrial portfolio occupancy rates are currently above the national industry averages of 91.7% and 94.9%, respectively (CB Richard Ellis, Canadian Office and Industrial Market Views, 3rd Quarter 2006). Occupancy rates discussed in this report include occupied and committed space at September 30, 2006 and exclude space to which the rent supplement is applied.

	Total Portfolio		Comparative Properties	
	September 30, 2006	December 31, 2005	September 30, 2006	December 31, 2005
Office				
Québec	90.1%	90.7%	89.2%	90.7%
National Capital Region	98.7%	99.1%	98.8%	99.1%
Toronto Region	97.7%	96.2%	97.3%	96.2%
Alberta	98.3%	99.3%	99.9%	99.3%
Western Canada	96.2%	99.1%	99.2%	99.1%
Total office	96.4%	96.3%	96.4%	96.3%
Industrial				
Québec	94.5%	94.8%	94.5%	94.8%
Toronto Region	96.2%	96.5%	95.4%	96.5%
Alberta	97.5%	98.0%	97.3%	98.0%
Total industrial	95.9%	96.2%	95.6%	96.2%
Overall	96.2%	96.3%	96.0%	96.3%

Excludes redevelopment properties.

The percentage of occupied and committed space across our portfolio remains strong. Looking ahead, we anticipate occupancy rates will remain steady with small improvements in some markets; however, with nearly full economic occupancy rates across much of our portfolio, it will be challenging to achieve further increases.

Summary of leasing activity to September 30, 2006:

(square feet)	Office	Industrial	Total
Vacant space available – January 1, 2006	277,203	289,668	566,871
Remeasurements	(3,716)	(48)	(3,764)
Acquisitions	79,241	9,310	88,551
Leases terminated/expiring	720,395	1,315,087	2,035,482
Total space available for lease	1,073,123	1,614,017	2,687,140
New tenants	293,339	506,613	799,952
Renewals	432,475	764,906	1,197,381
Total space leased	725,814	1,271,519	1,997,333
Total space available for lease – September 30, 2006	347,309	342,498	689,807
Net (increase) in vacant space	(70,106)	(52,830)	(122,936)

In general, we experienced healthy leasing activity across our portfolio. During the third quarter, approximately 696,100 square feet of leases expired or were terminated while we completed approximately 682,000 square feet of renewals and new leases. Year-to-date, we have experienced a 122,936 square foot net increase in vacant space resulting from 2.0 million square feet of lease expiries or terminations and 0.09 million square feet of acquired vacancy, offset by 2.0 million square feet of new leasing and renewals. Rental rates achieved on both renewals and new leasing were slightly higher than expiring rates.

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

(square feet)	Current Vacancy	Current Monthly Tenancies	2006	2007	2008	2009	2010 and thereafter	Total
Office	347,309	106,474	165,412	1,032,725	887,672	1,545,461	5,532,408	9,617,461
Industrial	342,498	58,631	400,474	1,500,207	1,270,759	1,198,243	3,538,465	8,309,277
Total	689,807	165,105	565,886	2,532,932	2,158,431	2,743,704	9,070,873	17,926,738
Percentage	3.8%	0.9%	3.2%	14.1%	12.1%	15.3%	50.6%	100%

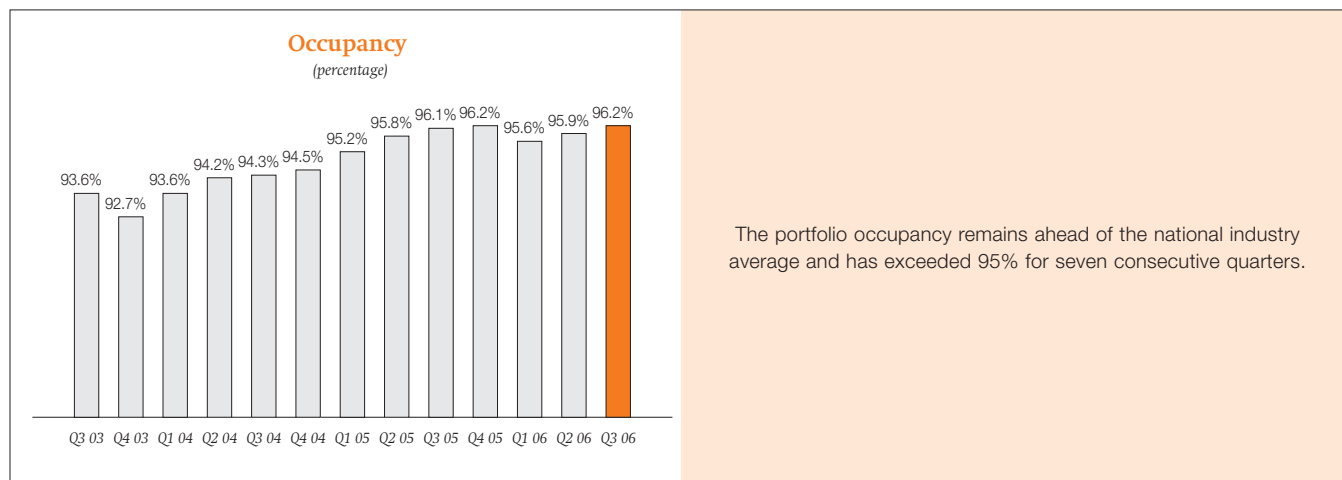
Excludes redevelopment properties.

Looking into next year, 14% of our leases will be up for renewal. While we have extensive experience in managing our lease rollovers and a healthy renewal track record, there are certain tenancies that will be terminated. In these instances, we may incur greater leasing costs and experience some downtime between tenancies while the spaces are reconfigured. However, when looking at our average expiring rents versus our average in-place rent and our estimate of market prices, we are optimistic that we will be well positioned once the spaces are retenanted.

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

	Current Monthly Tenancies	2006	2007	2008	2009	2010 and thereafter
Office	\$ 11.90	\$ 14.23	\$ 11.81	\$ 12.01	\$ 12.83	\$ 14.12
Industrial	4.18	4.31	4.81	4.81	4.99	6.14
Portfolio Average	\$ 9.16	\$ 7.21	\$ 7.67	\$ 7.77	\$ 9.41	\$ 11.01
Market Rents ⁽¹⁾						
Office	\$ 12.83	\$ 20.43	\$ 14.93	\$ 14.32	\$ 14.80	\$ 16.82
Industrial	5.00	4.65	5.01	5.04	5.10	6.17
Market Rent Average	\$ 10.05	\$ 9.19	\$ 9.05	\$ 8.85	\$ 10.56	\$ 12.67

(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:

	September 30, 2006 ⁽¹⁾			December 31, 2005 ⁽²⁾		
	Average Remaining Lease Term (years)	Average Tenant Size (sq. ft.)	Average In-Place Net Rent (per sq. ft.) ⁽³⁾	Average Remaining Lease Term (years)	Average Tenant Size (sq. ft.)	Average In-Place Net Rent (per sq. ft.) ⁽³⁾
Office	4.58	9,141	\$ 13.42	4.78	9,405	\$ 13.58
Industrial	4.32	13,210	\$ 5.40	4.33	12,750	\$ 5.24
Portfolio average	4.46	10,582	\$ 9.71	4.55	10,765	\$ 9.36

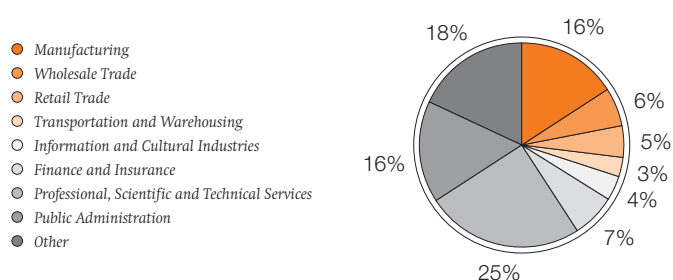
(1) Excludes redevelopment properties.

(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 10,600 square feet. The result is a large and diverse tenant base. With approximately 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 6.7%, 4.5% and 3.1% of our gross rental revenue, respectively. The stability and quality of our cash flow is enhanced with approximately 16% of the Trust's gross rental revenue coming from government agencies. The table below sets out the percentage contribution to gross rental revenue of our ten largest tenants:

Tenant	Owned Area in sq. ft.	% of Owned Area	% of Gross Rental Revenue	Expiry
Government of Canada	867,000	4.8%	6.7%	2007–2015
Government of Ontario	515,000	2.9%	4.5%	2007–2015
Telus Communications	310,000	1.7%	3.1%	2013–2016
Aviva	316,000	1.8%	2.7%	2016
Bell Canada	295,000	1.6%	2.1%	2009–2010
Entrust	146,000	0.8%	1.4%	2015
State Street Trust Company	94,000	0.5%	1.3%	2012
International Financial Data Services	96,000	0.5%	1.3%	2007–2013
Government of Northwest Territories	106,000	0.6%	1.3%	2007–2012
Government of British Columbia	102,000	0.6%	1.2%	2009
Total	2,847,000	15.8%	25.6%	

Acquisitions

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 \$1.2 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 we acquired \$70.7 million of revenue-producing properties in Regina, Ottawa and Toronto. We also acquired \$7.3 million of land for development in Surrey, Edmonton and Toronto.

<i>Quarter ended September 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 (\$000s)</i>	<i>Fair Value of Mortgage Assumed (\$000s)</i>	<i>Date Acquired</i>
Tullamore Business Park, Brampton	land	60%	–	–	\$ 3,224	\$ –	July 4, 2006
Victoria Tower, Regina	office	100%	144,164	100%	17,815	8,621	July 21, 2006
100 Legacy Road, Ottawa	industrial	100%	103,379	100%	8,906	–	August 1, 2006
10079 Jasper Avenue, Edmonton	land	10%	–	–	310	–	August 4, 2006
Aviva Corporate Centre, Toronto	office/ industrial	100%	436,803	100%	43,961	–	September 13, 2006
Station Tower Lands, Surrey	land	100%	–	–	3,728	–	September 21, 2006
Total			684,346	100%	\$ 77,944	\$ 8,621	

Acquisitions under Contract

We currently have under contract, subject to a variety of conditions, approximately \$77.8 million of office and industrial properties totalling 0.4 million square feet.

QUARTERLY INFORMATION

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

(\$000s)	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Revenues								
Rental properties revenue	\$ 76,778	\$ 66,051	\$ 62,970	\$ 60,391	\$ 57,385	\$ 52,720	\$ 50,119	\$ 49,405
Interest and fee income	1,038	852	499	397	410	619	718	635
	77,816	66,903	63,469	60,788	57,795	53,339	50,837	50,040
Expenses								
Rental properties operating expenses	31,380	27,744	28,067	27,190	25,216	23,427	23,343	23,481
Interest	17,934	15,833	14,978	14,701	14,378	13,215	11,666	11,600
Depreciation of rental properties	10,824	9,227	8,540	8,087	7,967	6,800	6,604	6,691
Amortization of deferred leasing costs, tenant improvements and intangibles	9,007	6,513	5,710	5,907	5,565	4,405	3,630	3,530
General and administrative	1,688	1,755	1,508	1,641	1,362	1,245	1,161	1,899
	70,833	61,072	58,803	57,526	54,488	49,092	46,404	47,201
Income before the undernoted items								
	6,983	5,831	4,666	3,262	3,307	4,247	4,433	2,839
Provision for impairment in value of rental property	-	-	-	(11,533)	-	-	-	-
Internalization of property manager	27	(13,090)	-	-	-	-	-	-
Gain (loss) on disposal of rental property	(445)	216	-	-	-	-	-	(11)
Dilution gain	-	-	-	296	269	652	673	548
Income (loss) before income and large corporations taxes								
	6,565	(7,043)	4,666	(7,975)	3,576	4,899	5,106	3,376
Income Taxes								
Current income and large corporations taxes	(81)	76	45	49	44	41	47	46
Future income taxes (recovery)	(202)	2,453	174	(4,286)	259	183	192	(25)
Income tax expense (recovery)	(283)	2,529	219	(4,237)	303	224	239	21
Income (loss) before non-controlling interest and discontinued operations								
	6,848	(9,572)	4,447	(3,738)	3,273	4,675	4,867	3,355
Loss (income) attributable to non-controlling interest	-	(517)	(1,323)	1,192	(1,007)	(1,330)	(1,366)	(953)
Income (loss) before discontinued operations								
	6,848	(10,089)	3,124	(2,546)	2,266	3,345	3,501	2,402
Discontinued operations	(25)	3,343	65	(2,469)	(43)	75	180	625
Net income (loss)	\$ 6,823	\$ (6,746)	\$ 3,189	\$ (5,015)	\$ 2,223	\$ 3,420	\$ 3,681	\$ 3,027
Net income (loss) per unit								
Basic	\$ 0.19	\$ (0.23)	\$ 0.15	\$ (0.28)	\$ 0.13	\$ 0.20	\$ 0.22	\$ 0.18
Diluted ⁽¹⁾	\$ 0.19	\$ (0.23)	\$ 0.15	\$ (0.29)	\$ 0.12	\$ 0.17	\$ 0.18	\$ 0.16

(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

(\$000s)	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Net Income (Loss)	\$ 6,823	\$ (6,746)	\$ 3,189	\$ (5,015)	\$ 2,223	\$ 3,420	\$ 3,681	\$ 3,027
Add (deduct):								
Depreciation of rental properties	10,824	9,255	8,570	8,117	8,053	6,884	6,689	6,785
Amortization of deferred leasing costs and intangibles	9,007	6,527	5,725	5,918	5,765	4,524	3,778	3,672
Future income tax	(202)	2,453	174	(4,286)	259	183	192	(25)
Imputed amortization of leasing costs related to the rent supplement	68	289	256	318	168	204	487	336
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(18)	(13)	(5)	(6)	(4)	(3)	(5)	(4)
Dilution gain	-	-	-	(296)	(269)	(652)	(673)	(548)
(Gain) loss on disposal of rental properties	415	(3,453)	24	3,837	-	25	(242)	(287)
Provision for impairment in value of rental property	-	-	-	11,533	-	-	-	-
Internalization of property manager	(27)	13,090	-	-	-	-	-	-
Non-controlling interest	-	527	1,349	(2,281)	986	1,367	1,451	1,245
Funds from operations	\$ 26,890	\$ 21,929	\$ 19,282	\$ 17,839	\$ 17,181	\$ 15,952	\$ 15,358	\$ 14,201
Funds from operations per unit								
Basic ⁽¹⁾	\$ 0.74	\$ 0.67	\$ 0.67	\$ 0.68	\$ 0.68	\$ 0.64	\$ 0.62	\$ 0.58
Diluted	\$ 0.70	\$ 0.64	\$ 0.63	\$ 0.64	\$ 0.63	\$ 0.60	\$ 0.60	\$ 0.56
Cash Generated from Operating Activities	\$ 22,058	\$ 24,634	\$ 17,167	\$ 13,203	\$ 16,351	\$ 19,862	\$ 13,575	\$ 9,934
Add (deduct):								
Deferred leasing costs incurred	972	1,739	1,034	1,602	831	1,034	973	962
Amortization of deferred financing costs incurred prior to June 30, 2003	81	94	94	94	98	87	87	104
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	17	19	21	25	78	4	4	14
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(18)	(13)	(5)	(5)	(4)	(3)	(5)	-
Amortization of deferred leasing costs incurred subsequent to June 30, 2003	-	-	-	-	-	-	-	(1,089)
Imputed amortization of leasing costs related to the rent supplement	-	-	-	-	-	-	-	336
Loss (gain) on disposal of rental property	-	(25)	25	-	-	-	-	-
Amortization of deferred financing costs	(619)	(425)	(433)	(414)	(440)	(401)	(296)	(390)
Change in non-cash working capital	1,378	(5,524)	77	2,041	(924)	(6,374)	(654)	2,671
Distributable income	\$ 23,869	\$ 20,499	\$ 17,980	\$ 16,546	\$ 15,990	\$ 14,209	\$ 13,684	\$ 12,542
Distributable income per unit								
Basic ⁽¹⁾	\$ 0.66	\$ 0.63	\$ 0.62	\$ 0.63	\$ 0.63	\$ 0.57	\$ 0.55	\$ 0.51
Diluted	\$ 0.63	\$ 0.60	\$ 0.59	\$ 0.60	\$ 0.59	\$ 0.54	\$ 0.54	\$ 0.50
Weighted average units outstanding for FFO and DI								
Basic	36,350,417	32,727,091	28,968,219	26,266,118	25,387,969	25,081,201	24,865,912	24,651,828
Diluted	42,292,776	38,953,240	35,281,362	32,562,042	31,712,785	31,480,407	27,924,777	27,694,849

(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:

	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Office	96.4%	96.1%	96.1%	96.3%	95.5%	95.7%	94.7%	94.3%
Industrial	95.9%	95.7%	95.2%	96.2%	97.0%	96.3%	96.0%	94.9%
Overall	96.2%	95.9%	95.6%	96.2%	96.1%	95.8%	95.2%	94.5%

Excludes properties under redevelopment and properties held for sale for the respective period.

OUTLOOK

In the third quarter, we proficiently integrated the 1.8 million square feet of gross leasable area acquired in the second quarter into our operations. The benefits of our operational and acquisition strategy are clearly evidenced by the consistent growth of our key performance indicators, including 34% growth in revenue, 41% growth in total NOI and 3% growth in comparative property NOI, as well as a 9% increase in FFO per unit.

We have a regionally diverse portfolio and our operations in each market either reflect the general conditions of that market or are performing slightly better than average. Certain submarkets in Montréal have been struggling for some time now, and our properties in those markets are no exception. Leasing interest in our office properties is improving and we are optimistic that this will translate into improved occupancy. We do not, however, anticipate any near-term growth in the occupancy of the Montréal industrial portfolio. Conditions in the Greater Toronto Area are strong and both our office and industrial portfolios should continue to reflect the market and perform well. With respect to Western Canada, and Alberta in particular, little really needs to be said about the economy. Alberta is currently leading the North American market with record low vacancy rates. The greatest challenge at this time is accommodating the space requirements for tenant expansions. While only a small percentage of our office portfolio will be rolling over in Alberta in the next 12-15 months, we anticipate achieving notable rental rate increases on this space. In our Alberta industrial portfolio, we anticipate that certain tenancies up for renewal may become vacant; however, we are confident that after some downtime to refurbish this space it will be re-leased with reasonable rental rate increases. Finally, in our Western Canada category, we expect steady performance from both Saskatchewan and B.C., with perhaps slightly accelerated performance from Yellowknife.

Our greatest opportunities for continued incremental improvements in comparative property performance are through increasing rental rates and achieving greater operational efficiencies. With nearly full economic occupancy, we do not currently view this as an area of significant opportunity for improving performance. Throughout the remainder of 2006, we anticipate that our performance, both operationally and financially, will demonstrate sustained momentum.

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 that 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 to development activity 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 "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. This standard is applicable to the Trust commencing January 1, 2007, and we are in the process of assessing the impact of this new standard. At the beginning of the 2007 fiscal year, the Trust must recognize all financial assets and liabilities on its balance sheet in accordance with this section. The comparative financial statements will not be restated, and any required adjustments will be accomplished by restating the opening balance of retained earnings.

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

PROPOSED CHANGES TO THE TAXATION OF CANADIAN PUBLICLY TRADED INCOME TRUSTS

On October 31, 2006, the federal Minister of Finance announced a "Distribution Tax" on publicly traded income trusts and publicly listed partnerships. The announcement creates a new tax regime for publicly listed flow-through entities. Despite its name, the Distribution Tax is not a direct tax on distributions. Instead, certain distributions will not be deductible to publicly traded income trusts and partnerships. These entities will be taxed on their non-deductible distributions, in effect as corporations (at a rate comparable to the general combined federal/provincial corporate income tax rate). These distributions will be taxed as taxable dividends to investors. Distributions to Canadian resident individuals will be deemed to be "eligible dividends," qualifying for the enhanced dividend tax credit.

The new regime will apply to Specified Investment Flow-Throughs ("SIFTs"), which include certain publicly listed income trusts and publicly listed partnerships. Certain real estate investment trusts are excluded from the SIFT definition, and therefore are not subject to the new regime. At this time we believe that Dundee REIT will be excluded.

Draft legislation implementing the October 31, 2006 proposals has not yet been released. Therefore, more changes likely will be forthcoming to address technical and policy concerns. We are evaluating the announcement and will review the draft legislation when it is available to determine the impact, if any, on Dundee REIT.


CONSOLIDATED FINANCIAL STATEMENTS

DUNDEE REAL ESTATE INVESTMENT TRUST CONSOLIDATED BALANCE SHEETS

<i>(unaudited)</i> <i>(in thousands of dollars)</i>	Note	September 30, 2006	December 31, 2005
Assets			
Rental properties	4	\$ 1,725,611	\$ 1,328,395
Deferred costs	5	69,944	65,285
Land	6	40,323	-
Amounts receivable	7	15,659	13,378
Prepaid expenses and other assets	8	33,606	27,175
Cash and cash equivalents		13,113	16,516
Intangible assets	9	84,253	56,964
		\$ 1,982,509	\$ 1,507,713
Liabilities			
Debt	10	\$ 1,187,380	\$ 943,621
Amounts payable and accrued liabilities	11	43,122	32,260
Distributions payable	12	6,990	5,356
Future income tax liability		3,969	1,577
Intangible liabilities	9	26,054	6,181
		1,267,515	988,995
Non-controlling Interest	13	-	146,976
Unitholders' Equity	13	714,994	371,742
		\$ 1,982,509	\$ 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 September 30</i>		<i>For the Nine Months Ended September 30</i>	
		2006	2005	2006	2005
Revenues					
Rental properties revenue		\$ 76,778	\$ 57,385	\$ 205,799	\$ 160,224
Interest and fee income		1,038	410	2,389	1,747
		77,816	57,795	208,188	161,971
Expenses					
Rental properties operating expenses		31,380	25,216	87,191	71,986
Interest	14	17,934	14,378	48,745	39,259
Depreciation of rental properties		10,824	7,967	28,591	21,371
Amortization of deferred leasing costs, tenant improvements and intangibles		9,007	5,565	21,230	13,600
General and administrative		1,688	1,362	4,951	3,768
		70,833	54,488	190,708	149,984
Income Before the Undernoted Items					
		6,983	3,307	17,480	11,987
Internalization of property manager	21	27	–	(13,063)	–
Loss on disposal of rental property	22	(445)	–	(229)	–
Dilution gain	13	–	269	–	1,594
Income Before Income and Large Corporations Taxes					
		6,565	3,576	4,188	13,581
Income Taxes					
Current income and large corporations taxes		(81)	41	40	132
Future income taxes		(202)	259	2,425	634
	23	(283)	303	2,465	766
Income Before Non-Controlling Interest and Discontinued Operations					
		6,848	3,273	1,723	12,815
Income Attributable To Non-Controlling Interest					
		–	(1,007)	(1,840)	(3,703)
Income (Loss) Before Discontinued Operations					
		6,848	2,266	(117)	9,112
Discontinued Operations	18	(25)	(43)	3,383	212
Net Income		\$ 6,823	\$ 2,223	\$ 3,266	\$ 9,324
Basic Income Per Unit					
Continuing operations	15	\$ 0.19	\$ 0.13	\$ –	\$ 0.54
Discontinued operations		–	–	0.12	0.01
Net Income		\$ 0.19	\$ 0.13	\$ 0.12	\$ 0.55
Diluted Income Per Unit					
Continuing operations	15	\$ 0.19	\$ 0.12	\$ –	\$ 0.45
Discontinued operations		–	–	0.12	0.01
Net Income		\$ 0.19	\$ 0.12	\$ 0.12	\$ 0.46

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 income		-	-	3,266	-	-	3,266
Distributions paid	12	-	-	-	(41,739)	-	(41,739)
Distributions payable	12	-	-	-	(6,990)	-	(6,990)
Distribution Reinvestment Plan	13	656,248	18,506	-	-	-	18,506
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	1,758,240	43,956	-	-	-	43,956
Conversion of 5.7%							
Debentures to equity	13	2,965	89	-	-	-	89
Issue of units on internalization of property manager	21	485,016	13,357	-	-	-	13,357
Deferred Unit Incentive Plan	13	16,670	816	-	-	-	816
Issue costs		-	(9,654)	-	-	-	(9,654)
Change in foreign currency translation adjustment	22	-	-	-	-	2,004	2,004
Reclassification of LP Class B Units, Series 1	13	8,337,365	195,884	6,326	(50,504)	(2,373)	149,333
Unitholders' Equity,							
September 30, 2006		37,798,298	\$ 879,940	\$ 25,436	\$ (184,913)	\$ (5,469)	\$ 714,994

<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		-	-	9,324	-	-	9,324
Distributions paid		-	-	-	(24,907)	-	(24,907)
Distributions payable		-	-	-	(3,174)	-	(3,174)
Distribution Reinvestment Plan	13	279,185	7,379	-	-	-	7,379
Unit Purchase Plan	13	7,831	210	-	-	-	210
Conversion of 6.5%							
Debentures to equity	13	81,040	2,026	-	-	-	2,026
Redemption of units		(100)	(2)	-	-	-	(2)
Deferred Unit Incentive Plan	13	16,764	587	-	-	-	587
Issue costs		-	(257)	-	-	-	(257)
Equity component of convertible debenture		-	1,200	-	-	-	1,200
Change in foreign currency translation adjustment		-	-	-	-	(1,818)	(1,818)
Unitholders' Equity,							
September 30, 2005		17,204,683	\$ 368,728	\$ 20,859	\$ (75,530)	\$ (4,944)	\$ 309,113

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>	Note	<i>For the Three Months Ended September 30</i>		<i>For the Nine Months Ended September 30</i>	
		2006	2005	2006	2005
		<i>(restated, see Note 2)</i>		<i>(restated, see Note 2)</i>	
Generated from (Utilized in) Operating Activities					
Net income		\$ 6,823	\$ 2,223	\$ 3,266	\$ 9,324
Non-cash items:					
Depreciation of rental properties		10,824	8,053	28,648	21,626
Amortization of deferred leasing costs, tenant improvements and intangibles		9,007	5,765	21,259	14,067
Amortization of deferred financing costs		619	440	1,477	1,137
Amortization of marked-to-market adjustment on acquired debt		(521)	(426)	(1,383)	(1,595)
Internalization of property manager		(27)	-	13,063	-
Loss (gain) on disposal of rental properties		415	-	(3,013)	(217)
Deferred unit compensation expense		276	240	816	587
Future income taxes		(202)	259	2,425	634
Amortization of market rent adjustments on acquired leases		(1,895)	(109)	(2,502)	(250)
Straight-line rent adjustment		(911)	(904)	(2,397)	(2,849)
Dilution gain		-	(269)	-	(1,594)
Non-controlling interest		-	986	1,876	3,804
		24,408	16,258	63,535	44,674
Deferred leasing costs incurred		(972)	(831)	(3,745)	(2,838)
Change in non-cash working capital	20	(1,378)	924	4,069	7,952
		22,058	16,351	63,859	49,788
Generated from (Utilized in) Investing Activities					
Investment in rental properties		(2,745)	(1,719)	(6,514)	(4,124)
Investment in tenant improvements	2	(494)	(2,153)	(4,005)	(6,525)
Investment in land development		(764)	-	(1,056)	-
Acquisition of rental properties and land	3	(67,928)	(50,092)	(386,527)	(220,503)
Acquisition deposit on rental properties		600	500	-	(175)
Investment in mezzanine loan		(1,420)	-	(3,655)	(750)
Net proceeds from disposal of rental properties		(337)	-	25,000	2,254
Change in restricted cash, net		(777)	1,136	(578)	9,589
		(73,865)	(52,328)	(377,335)	(220,234)
Generated from (Utilized in) Financing Activities					
Mortgages placed, net of costs		86,322	69,750	246,662	126,800
Mortgage principal repayments		(6,875)	(4,607)	(18,463)	(12,753)
Mortgage lump sum repayments		(34,131)	-	(47,057)	(39,698)
Term debt principal repayments		(84)	(141)	(298)	(380)
Term debt lump sum repayments		-	-	(14,957)	(2,075)
Term debt placed, net of costs		203	-	6,095	-
Convertible debentures issued, net of costs		-	(216)	-	95,452
Demand revolving credit facility, net		10,362	(20,662)	10,362	21,577
Demand non-revolving credit facility		-	-	-	(6,107)
Distributions paid on REIT Units	12	(13,846)	(7,400)	(34,936)	(23,791)
Units issued for cash, net of costs		(203)	46	162,665	48
		41,748	36,770	310,073	159,073
Increase (Decrease) in Cash and Cash Equivalents		(10,059)	793	(3,403)	(11,373)
Cash and Cash Equivalents, Beginning of Period		23,172	5,165	16,516	17,331
Cash and Cash Equivalents, End of Period		\$ 13,113	\$ 5,958	\$ 13,113	\$ 5,958

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 September 30, 2006, DRC owned 496,838 LP Class B Units, Series 1 (which includes 35,016 units in escrow). On August 1, 2006, DRC transferred 742,279 REIT Units, Series A (“Units” or “REIT Units”) and 8,337,365 LP Class B Units to its majority shareholder as part of corporate reorganization of DRC.

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 leasing fees and costs, tenant inducements, except for initial leasing costs which are included in Rental Properties, and deferred leasing costs acquired. Deferred leasing costs are amortized on a straight-line basis over the term of the applicable lease. Tenant inducements are payments for which the tenant has no obligation to make leasehold improvements to the leased space and are amortized against rental properties revenue on a straight-line basis over the term of the applicable lease.

Tenant improvements include costs incurred to make leasehold improvements to tenants' space and are amortized on a straight-line basis over the term of the applicable lease.

During the quarter, as a result of implementing the provisions of EIC-156 "Accounting by a Vendor for Consideration Given to a Customer", the Trust has reclassified tenant improvements, which were previously included in deferred leasing costs, and presented tenant improvements as an investing activity on the statement of cash flows. The Trust has reclassified comparative figures to conform to the current period's presentation. The adoption of EIC-156 had the effect during the three and nine-month periods ended September 30, 2006 of reducing deferred leasing costs incurred, increasing cash generated from operating activities and increasing cash utilized in investing activities by \$494 and \$4,005, respectively. In 2005, the adoption had the effect during the three and nine-month periods ended September 30, 2005 of reducing deferred leasing costs incurred, increasing cash generated from operating activities and increasing cash utilized in investing activities by \$2,153 and \$6,525, respectively.

3. PROPERTY ACQUISITIONS

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

<i>Nine Months Ended September 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</i>	<i>Fair Value of Mortgage Assumed</i>	<i>Date Acquired</i>
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	land	100%	86,000	-	4,160	-	May 29, 2006
Barker Business Park (Phase II), Toronto	land	60%	-	-	8,994	-	June 7, 2006
Calgary Office Portfolio, Calgary	office	100%	822,000	98%	218,257	23,339	June 15, 2006
Tullamore Business Park, Brampton	land	60%	-	-	3,224	-	July 4, 2006
Victoria Tower, Regina	office	100%	144,000	100%	17,815	8,621	July 21, 2006
100 Legacy Road, Ottawa	industrial	100%	103,000	100%	8,906	-	August 1, 2006
10079 Jasper Avenue, Edmonton	land	10%	-	-	310	-	August 4, 2006
Aviva Corporate Centre, Toronto	office/ industrial	100%	440,000	100%	43,961	-	September 13, 2006
Station Tower Lands, Surrey	land	100%	-	-	3,728	-	September 21, 2006
Total			2,938,000	100%	\$ 494,871	\$ 103,030	

<i>Nine Months Ended September 30, 2005</i>	<i>Property Type</i>	<i>Interest Acquired</i>	<i>Acquired GLA (sq. ft.)</i>	<i>Occupancy on Acquisition</i>	<i>Purchase Price</i>	<i>Fair Value of Mortgage Assumed</i>	<i>Date Acquired</i>
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%	4,704	2,600	March 2, 2005
Epcor Centre, Edmonton	office	10% ⁽¹⁾	19,000	100%	1,334	–	March 4, 2005
2465 St. Laurent Blvd., Ottawa	office	100%	62,000	100%	8,612	3,222	March 8, 2005
56 Wellesley Street West, Toronto	office	50% ⁽¹⁾	108,000	100%	14,150	4,364	April 1, 2005
120 Valleywood Drive, Markham	industrial	50% ⁽¹⁾	30,000	100%	1,670	828	April 1, 2005
2280 boul. Alfred-Nobel, Montréal	office	100%	86,000	–	5,485	–	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%	4,442	–	May 5, 2005
375–425 Britannia Road, Mississauga	industrial	100%	121,000	99%	10,485	3,269	May 30, 2005
Joffre Place, Calgary	office	100%	111,000	96%	18,310	9,680	June 2, 2005
975 boul. Saint-Joseph, Gatineau	office	100%	194,000	99%	25,945	14,483	June 17, 2005
400–480 boul. Armand Frappier, Laval	office	100%	198,000	94%	35,513	–	June 20, 2005
2285 Speakman Drive, Mississauga	office	100%	131,000	100%	13,161	–	June 27, 2005
199 Traders Blvd. East, Mississauga	industrial	100%	77,000	100%	7,246	–	August 9, 2005
Scotia Centre, St. John's	office	100%	190,000	100%	33,370	–	August 18, 2005
9975–9995 boul. De Catania, Brossard	industrial	100%	124,000	95%	15,989	7,616	August 30, 2005
1523–1531 rue Berlier, Laval	industrial	100%	6,000	100%	540	–	August 30, 2005
3913–3917 81st Avenue, Leduc	industrial development	100%	–	–	718	–	September 23, 2005
Total			2,446,000		\$ 279,101	\$ 57,479	

(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 Nine Months Ended September 30</i>	2006	2005
Rental properties		
Land	\$ 52,503	\$ 30,975
Buildings	378,239	206,214
Fixed assets and equipment	403	-
Properties under development	301	6,203
	431,446	243,392
Land		
Under development	29,900	-
Held for development	1,015	-
Held for sale	8,352	-
Third party management contracts	195	-
Deferred leasing costs acquired	8,264	9,556
Tenant loan receivables	-	177
Intangible assets		
Value of in-place leases	20,470	14,128
Lease origination costs	3,710	3,014
Value of above market rent leases	1,941	1,412
Value of tenant relationships	12,578	11,057
	517,871	282,736
Intangible liabilities		
Value of below market rent leases	(23,000)	(3,635)
Total purchase price	\$ 494,871	\$ 279,101
The consideration paid consists of:		
Cash		
Paid during the period	\$ 386,527	\$ 220,503
Deposit	710	450
	387,237	220,953
Assumed mortgages at fair value	103,030	57,479
Vendor loan	1,395	-
Assumed accounts payable and accrued liabilities	3,209	669
Total consideration	\$ 494,871	\$ 279,101

The allocations of the purchase prices to fair values of assets acquired and liabilities assumed for property acquisitions completed during the year have not been finalized and will be subject to adjustment.

4. RENTAL PROPERTIES

	September 30, 2006			December 31, 2005		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 282,277	\$ -	\$ 282,277	\$ 233,502	\$ -	\$ 233,502
Buildings and improvements	1,543,285	(108,382)	1,434,903	1,170,111	(84,412)	1,085,699
Fixed assets and equipment	4,142	(2,859)	1,283	2,661	(1,927)	734
Rental properties under development	7,148	-	7,148	8,460	-	8,460
Total	\$ 1,836,852	\$ (111,241)	\$ 1,725,611	\$ 1,414,734	\$ (86,339)	\$ 1,328,395

5. DEFERRED COSTS

	September 30, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Deferred leasing costs	\$ 18,577	\$ (6,917)	\$ 11,660	\$ 16,347	\$ (5,457)	\$ 10,890
Tenant improvements	66,879	(24,798)	42,081	54,786	(18,592)	36,194
Deferred recoverable costs	13,447	(6,708)	6,739	13,462	(5,970)	7,492
Deferred financing costs	13,594	(4,906)	8,688	13,819	(3,881)	9,938
Other deferred costs	1,852	(1,076)	776	1,617	(846)	771
Total	\$ 114,349	\$ (44,405)	\$ 69,944	\$ 100,031	\$ (34,746)	\$ 65,285

Amortization of deferred recoverable costs included in operating expenses for the nine months ended September 30, 2006 is \$1,154 (September 30, 2005 – \$1,463).

6. LAND

	September 30, 2006	December 31, 2005
Land under development	\$ 30,943	\$ -
Land held for development	1,015	-
Land held for sale	8,365	-
Total	\$ 40,323	\$ -

7. AMOUNTS RECEIVABLE

Amounts receivable include straight-line rents receivable of \$12,054 (December 31, 2005 – \$9,944) and credit adjustments of \$7,601 (December 31, 2005 – \$3,718).

8. PREPAID EXPENSES AND OTHER ASSETS

	September 30, 2006	December 31, 2005
Prepaid expenses	\$ 8,043	\$ 5,576
Mezzanine loans	17,026	12,513
Vendor loan	3,450	3,450
Deposits	155	1,282
Restricted cash	4,932	4,354
Total	\$ 33,606	\$ 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 September 30, 2006, the balance was \$25,031.

On May 26, 2006, the Trust entered into a joint venture agreement with a development partner to jointly own and develop prestige industrial and office properties in its target markets. The Trust has a 60% ownership interest in the joint venture. As part of the agreement, the Trust is required to provide mezzanine financing equal to 90% of any funding requirement, up to a maximum of \$45,000, not otherwise provided by third-party lenders. The Trust is also required to guarantee, when necessary, 90% of financing obtained from third parties. As at September 30, 2006, the Trust has advanced \$9,137 of the funding requirement for the purchase of approximately 60 acres of serviced lands in suburban Toronto. The amount invested is comprised of a mezzanine loan of \$3,973 and land under development of \$12,872 net of term debt of \$7,490 and accrued liabilities of \$218. The Trust has also provided an \$8,289 guarantee on the financing provided by a third-party lender of which \$5,526 is included in term debt. In addition, the Trust has the right to purchase completed properties, other than build-to-suit properties that will be sold to third parties. The mezzanine loan to the joint venture bears interest at an effective rate of 11%, for 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

	September 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	\$ 7,054	\$ (1,881)	\$ 5,173	\$ 5,113	\$ (1,256)	\$ 3,857
Value of in-place leases	48,907	(12,905)	36,002	28,614	(6,413)	22,201
Lease origination costs	12,172	(3,035)	9,137	8,465	(1,683)	6,782
Value of tenant relationships	40,202	(6,261)	33,941	27,418	(3,294)	24,124
Total	\$ 108,335	\$ (24,082)	\$ 84,253	\$ 69,610	\$ (12,646)	\$ 56,964

	September 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	\$ 30,821	\$ (4,767)	\$ 26,054	\$ 7,843	\$ (1,662)	\$ 6,181

10. DEBT

	September 30, 2006	December 31, 2005
Mortgages	\$ 1,041,500	\$ 756,920
Convertible debentures	127,733	171,368
Demand revolving credit facility	10,362	—
Term debt	7,785	15,333
Total	\$ 1,187,380	\$ 943,621

Mortgages are secured by charges on specific rental properties. DRC continues to be contingently liable for certain debt obligations of Dundee REIT. Term debt is secured by charges on specific 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 September 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 one property. As at September 30, 2006, the maximum amount available under this facility was \$72,869, of which \$54 was utilized in the form of letters of guarantee (December 31, 2005 – \$208). As at September 30, 2006, the amount still available under this facility was \$62,453.

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	
	September 30, 2006	December 31, 2005		September 30, 2006	December 31, 2005
Fixed Rate					
Mortgages	5.89%	6.17%	2006 – 2019	\$ 1,022,930	\$ 756,920
Convertible debentures	6.04%	6.19%	2014 – 2015	127,733	171,368
Term debt	7.08%	6.70%	2006 – 2011	2,259	271
Total fixed rate	5.91%	6.17%		1,152,922	928,559
Variable Rate					
Mortgage	8.38%	–	2008	18,570	–
Term debt	7.00%	5.65%	2007	5,526	15,062
Demand revolving credit facility	6.38%	–	2006	10,362	–
Total variable rate	7.56%	5.65%		34,458	15,062
Total debt	5.96%	6.16%		\$ 1,187,380	\$ 943,621

The variable rate mortgage debt outstanding at September 30, 2006 bears interest generally at the rate of LIBOR plus 3.05% up to a maximum of 8.75%. At September 30, 2006, the LIBOR rate was 5.33%.

The scheduled principal repayments and debt maturities are as follows:

Years ending December 31,	Mortgages	Term Debt	Convertible Debentures	Demand Revolving Credit Facility	Total
Remainder of 2006	\$ 18,034	\$ 5,592	\$ –	\$ 10,362	\$ 33,988
2007	47,070	1,511	–	–	48,581
2008	139,410	113	–	–	139,523
2009	143,745	–	–	–	143,745
2010	62,187	–	–	–	62,187
2011 and thereafter	631,054	569	127,733	–	759,356
	\$ 1,041,500	\$ 7,785	\$ 127,733	\$ 10,362	\$ 1,187,380

Included in mortgages are \$10,196 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 \$1,196 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

	September 30, 2006	December 31, 2005
Trade payables	\$ 4,333	\$ 2,074
Accrued liabilities and other payables	22,357	15,787
Accrued interest	5,874	5,428
Deposits	8,712	6,646
Rent received in advance	1,846	2,325
Total	\$ 43,122	\$ 32,260

12. DISTRIBUTIONS

The following table sets out distribution payments for the nine months ended September 30, 2006.

	REIT Units, Series A	LP Class B Units, Series 1	Total
Paid in cash	\$ 34,936	\$ –	\$ 34,936
Paid by way of reinvestment in REIT Units, Series A	3,879	14,281	18,160
Paid by way of reinvestment in LP Class B Units, Series 1	–	346	346
Less: Payable at December 31, 2005	(3,769)	(1,587)	(5,356)
Plus: Payable at September 30, 2006	5,316	1,674	6,990
Total	\$ 40,362	\$ 14,714	\$ 55,076

The amount payable at September 30, 2006 was satisfied on October 15, 2006 by way of \$4,868 in cash and \$2,122 by way of 59,935 REIT Units, Series A and 2,587 LP Class B Units, Series 1. Included in the total distributions is \$702 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

	September 30, 2006		December 31, 2005	
	Number of Units	Amount	Number of Units	Amount
REIT Units, Series A	28,964,094	\$ 563,978	20,449,209	\$ 376,842
LP Class B Units, Series 1	8,834,204	156,485	8,337,365	149,056
Cumulative foreign currency translation adjustment	–	(5,469)	–	(7,180)
Total	37,798,298	\$ 714,994	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 income	–	3,823	–	(557)	–	–	3,266
Distributions paid	–	(35,046)	–	(6,693)	–	–	(41,739)
Distributions payable	–	(5,316)	–	(1,674)	–	–	(6,990)
Public offering of units	6,080,000	169,966	–	–	–	6,080,000	169,966
Distribution Reinvestment Plan	644,425	18,160	11,822	346	–	656,248	18,506
Unit Purchase Plan	12,585	342	–	–	–	12,585	342
Deferred Unit Incentive Plan	16,670	816	–	–	–	16,670	816
Issue costs	–	(9,654)	–	–	–	–	(9,654)
Reclassification of LP Class B Units, Series 1	–	–	8,337,365	151,706	(2,373)	8,337,365	149,333
Conversion of 6.5% Debentures to equity	1,758,240	43,956	–	–	–	1,758,240	43,956
Conversion of 5.7% Debentures to equity	2,965	89	–	–	–	2,965	89
Issue of equity on internalization of property manager	–	–	485,016	13,357	–	485,016	13,357
Change in foreign currency translation adjustment	–	–	–	–	2,004	–	2,004
Unitholders' Equity, September 30, 2006	28,964,094	\$ 563,978	8,834,203	\$ 156,485	\$ (5,469)	37,798,298	\$ 714,994

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, September 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, no further purchase price adjustments will result from investing the net proceeds in DPLP.

Distribution Reinvestment and Unit Purchase Plan ("DRIP")

For the nine months ended September 30, 2006, 644,425 REIT Units, Series A and 11,823 LP Class B Units, Series 1, were issued under the distribution reinvestment plan for \$18,506 (September 30, 2005 – 279,185 REIT Units, Series A and 413,281 LP Class B Units, Series 1 for \$18,170).

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 \$1,594 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.

Unit Purchase Plan

For the nine months ended September 30, 2006, 12,585 REIT Units, Series A were issued under the Unit Purchase Plan for \$342 (September 30, 2005 – 7,831 REIT Units, Series A for \$210).

Conversion of Debentures

During the nine months ended September 30, 2006, the Trust issued 1,758,240 REIT Units, Series A upon conversion of \$43,956 principal amount of the 6.5% Debentures (September 30, 2005 – issued 81,040 REIT Units, Series A upon conversion of \$2,026 principal amount) and 2,965 REIT Units, Series A upon conversion of \$89 principal amount of the 5.7% Debentures (September 30, 2005 – nil).

Deferred Unit Incentive Plan

During the nine months ended September 30, 2006, \$816 (September 30, 2005 – \$587) 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	–	–	12,888	12,888
Cancelled	23.60	(3,000)	(237)	(3,237)
Issuance of REIT Units, Series A on vesting	22.81	(13,465)	(3,205)	(16,670)
Fractional units paid in cash	–	(2)	(17)	(19)
Outstanding and payable at September 30, 2006	\$ 23.72	183,700	34,470	218,170
Vested but not issued at September 30, 2006	\$ 22.34	63,167	16,516	79,683

14. INTEREST

Interest incurred and charged to earnings is recorded as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2006	2005	2006	2005
Interest expense incurred, at stated rate of debt	\$ 18,313	\$ 14,460	\$ 49,526	\$ 39,906
Amortization of deferred financing costs	619	432	1,477	1,115
Marked-to-market rate adjustment	(521)	(426)	(1,383)	(1,595)
Interest capitalized	(477)	(88)	(875)	(167)
Interest expense	\$ 17,934	\$ 14,378	\$ 48,745	\$ 39,259

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 and land under development.

15. INCOME PER UNIT

The weighted average number of units outstanding was as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2006	2005	2006	2005
REIT Units, Series A	27,473,182	17,041,766	24,076,381	16,919,440
LP Class B Units, Series 1	8,830,018	–	4,892,803	–
Vested Deferred Trust Units	47,216	17,761	44,451	15,378
Total weighted-average number of units outstanding for basic income per unit amounts	36,350,416	17,059,527	29,013,635	16,934,818
Add incremental units:				
LP Class B Units, Series 1	–	8,328,442	–	8,178,782
Unvested Deferred Trust Units	40,124	22,938	34,407	21,482
Income Deferred Trust Units	30,968	17,839	26,464	14,992
Total weighted average number of units outstanding for diluted income per unit amounts	36,421,508	25,428,746	29,074,506	25,150,074

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

	<i>For the Three Months Ended September 30</i>		<i>For the Nine Months Ended September 30</i>	
	2006	2005	2006	2005
Income (loss) before discontinued operations				
for basic income per unit amounts	\$ 6,848	\$ 2,266	\$ (117)	\$ 9,112
Add: Income attributable to non-controlling interest	-	1,007	-	3,703
Depreciation expense	-	62	-	164
Deduct: Dilution gain	-	(269)	-	(1,594)
Income (loss) before discontinued operations				
 for diluted per unit amounts	\$ 6,848	\$ 3,066	\$ (117)	\$ 11,385

The 3,695,316 incremental LP Class B Units, Series 1 for the nine months ended September 30, 2006 have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

The 6,083,683 incremental units of an assumed conversion of both debenture issues for the nine months ended September 30, 2006 (September 30, 2005 – 5,217,592 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.

For the Three Months Ended September 30, 2006	Office	Industrial	Segment Total	Other	Total
Operations					
Revenues	\$ 59,087	\$ 16,592	\$ 75,679	\$ 1,099	\$ 76,778
Operating expenses	25,041	5,676	30,717	663	31,380
Net operating income	34,046	10,916	44,962	436	45,398
Depreciation of rental properties	8,109	2,507	10,616	208	10,824
Amortization of deferred leasing costs and intangibles	7,571	1,370	8,941	66	9,007
Segment income	\$ 18,366	\$ 7,039	\$ 25,405	\$ 162	25,567
Interest expense					(17,934)
General and administrative expenses					(1,688)
Internalization of property manager					27
Gain on disposal of rental property					(445)
Interest and fee income					1,038
Income taxes					283
Income attributable to non-controlling interest					-
Discontinued operations					(25)
Net income					\$ 6,823
Segment rental properties	\$ 1,284,731	\$ 410,405	\$ 1,695,136	\$ 30,475	\$ 1,725,611
Capital Expenditures					
Investment in rental properties	\$ (1,428)	\$ (1,250)	\$ (2,678)	\$ (67)	\$ (2,745)
Investment in tenant improvements	(238)	(284)	(522)	28	(494)
Investment in land development	-	-	-	(764)	(764)
Acquisition of rental properties and land	(44,363)	(17,698)	(62,061)	(5,867)	(67,928)
Deferred leasing costs	(790)	(175)	(965)	(7)	(972)
Total capital expenditures	\$ (46,819)	\$ (19,407)	\$ (66,226)	\$ (6,677)	\$ (72,903)

For the Three Months Ended September 30, 2005	Office	Industrial	Segment Total	Other	Total
Operations					
Revenues	\$ 41,018	\$ 14,187	\$ 55,205	\$ 2,180	\$ 57,385
Operating expenses	18,827	5,169	23,996	1,220	25,216
Net operating income	22,191	9,018	31,209	960	32,169
Depreciation of rental properties	5,408	2,156	7,564	403	7,967
Amortization of deferred leasing costs and intangibles	4,254	1,227	5,481	84	5,565
Segment income	\$ 12,529	\$ 5,635	\$ 18,164	\$ 473	18,637
Interest expense					(14,378)
General and administrative expenses					(1,362)
Dilution gain					269
Interest and fee income					410
Income taxes					(303)
Income attributable to non-controlling interest					(1,007)
Discontinued operations					(43)
Net income					\$ 2,223
Segment rental properties	\$ 865,257	\$ 347,603	\$ 1,212,860	\$ 69,308	\$ 1,282,168
Capital Expenditures					
Investment in rental properties	\$ (969)	\$ (502)	\$ (1,471)	\$ (248)	\$ (1,719)
Investment in tenant improvements	(1,102)	(1,030)	(2,132)	(21)	(2,153)
Acquisition of rental properties and land	(33,184)	(16,908)	(50,092)	-	(50,092)
Deferred leasing costs	(370)	(295)	(665)	(166)	(831)
Total capital expenditures	\$ (35,625)	\$ (18,735)	\$ (54,360)	\$ (435)	\$ (54,795)

For the Nine Months Ended September 30, 2006	Office	Industrial	Segment Total	Other	Total
Operations					
Revenues	\$ 153,064	\$ 47,626	\$ 200,690	\$ 5,109	\$ 205,799
Operating expenses	67,412	17,090	84,502	2,689	87,191
Net operating income	85,652	30,536	116,188	2,420	118,608
Depreciation of rental properties	20,457	7,253	27,710	881	28,591
Amortization of deferred leasing costs and intangibles	16,881	4,125	21,006	224	21,230
Segment income	\$ 48,314	\$ 19,158	\$ 67,472	\$ 1,315	68,787
Interest expense					(48,745)
General and administrative expenses					(4,951)
Internalization of property manager					(13,063)
Loss on disposal of rental property					(229)
Interest and fee income					2,389
Income taxes					(2,465)
Income attributable to non-controlling interest					(1,840)
Discontinued operations					3,383
Net income					\$ 3,266
Segment rental properties	\$ 1,284,731	\$ 410,405	\$ 1,695,136	\$ 30,475	\$ 1,725,611
Capital Expenditures					
Investment in rental properties	\$ (3,023)	\$ (3,423)	\$ (6,446)	\$ (68)	\$ (6,514)
Investment in tenant improvements	(2,625)	(1,179)	(3,804)	(201)	(4,005)
Investment in land development	-	-	-	(1,056)	(1,056)
Acquisition of rental properties and land	(306,087)	(42,568)	(348,655)	(37,872)	(386,527)
Deferred leasing costs	(2,812)	(916)	(3,728)	(17)	(3,745)
Total capital expenditures	\$ (314,547)	\$ (48,086)	\$ (362,633)	\$ (39,214)	\$ (401,847)
For the Nine Months Ended September 30, 2005					
	Office	Industrial	Segment Total	Other	Total
Operations					
Revenues	\$ 114,091	\$ 39,457	\$ 153,548	\$ 6,676	\$ 160,224
Operating expenses	53,658	14,621	68,279	3,707	71,986
Net operating income	60,433	24,836	85,269	2,969	88,238
Depreciation of rental properties	14,162	5,997	20,159	1,212	21,371
Amortization of deferred leasing costs and intangibles	10,132	3,248	13,380	220	13,600
Segment income	\$ 36,139	\$ 15,591	\$ 51,730	\$ 1,537	53,267
Interest expense					(39,259)
General and administrative expenses					(3,768)
Dilution gain					1,594
Interest and fee income					1,747
Income taxes					(766)
Income attributable to non-controlling interest					(3,703)
Discontinued operations					212
Net income					\$ 9,324
Segment rental properties	\$ 865,257	\$ 347,603	\$ 1,212,860	\$ 69,308	\$ 1,282,168
Capital Expenditures					
Investment in rental properties	\$ (1,993)	\$ (1,834)	\$ (3,827)	\$ (297)	\$ (4,124)
Investment in tenant improvements	(4,010)	(2,220)	(6,230)	(295)	(6,525)
Acquisition of rental properties and land	(157,845)	(62,658)	(220,503)	-	(220,503)
Deferred leasing costs	(1,472)	(1,104)	(2,576)	(262)	(2,838)
Total capital expenditures	\$ (165,320)	\$ (67,816)	\$ (233,136)	\$ (854)	\$ (233,990)

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 September 30</i>		<i>For the Nine Months Ended September 30</i>	
	2006	2005	2006	2005
Fees Received				
Rent supplement received by Dundee REIT under the Management Agreement (included in rental properties revenue)	\$ 323	\$ 486	\$ 1,186	\$ 1,814
Fees, cost recovery and rental income received by Dundee REIT under the DRC Services Agreement (included as a reduction of operating expenses)	527	130	913	411
Fees Paid				
Fees paid by Dundee REIT under the Management Agreement				
Management fees, included in rental properties' operating expenses	\$ -	\$ 939	\$ 1,346	\$ 2,617
Construction fees, capitalized to the related assets	-	101	98	251
Lease administration fees, included in deferred leasing costs	-	214	251	591
Fees paid by Dundee REIT under the Services Agreement				
Acquisition and financing fees, capitalized to the related assets	-	149	217	416

Included in amounts receivable at September 30, 2006 is \$138 related to the DRC Services Agreement (December 31, 2005 – \$215). Included in accrued liabilities and other payables at September 30, 2006 is \$NIL 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 \$3,287.

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2006	2005	2006	2005
Revenues				
Rental properties revenue	\$ (9)	\$ 643	\$ 177	\$ 1,722
Expenses				
Rental properties operating expenses	46	352	(87)	691
Interest	-	69	1	213
Depreciation of rental properties	-	86	57	255
Amortization of deferred leasing costs	-	200	29	467
	46	707	-	1,626
Income (loss) before the undernoted item	(55)	(64)	177	96
Gain on sale of rental properties, net	30	-	3,242	217
Income (loss) from discontinued operations before non-controlling interest	(25)	(64)	3,419	313
Income (loss) attributable to non-controlling interest	-	21	(36)	(101)
Income (loss) from discontinued operations	\$ (25)	\$ (43)	\$ 3,383	\$ 212

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 lease agreements that require tenant inducement payments of \$568. The amounts are expected to be paid in the fourth quarter of 2006.

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

The Trust has entered into conditional contracts to acquire an additional \$77,839 of rental properties.

20. SUPPLEMENTARY CASH FLOW INFORMATION

	<i>For the Three Months Ended September 30</i>		<i>For the Nine Months Ended September 30</i>	
	2006	2005	2006	2005
Decrease in accounts receivable	\$ (543)	\$ (556)	\$ (343)	\$ 2,360
Decrease in deferred costs (other than leasing costs)	371	(236)	770	322
Increase in prepaid expenses and other assets (excluding restricted cash and mezzanine loans)	(392)	(88)	(3,063)	(2,242)
Increase in accounts payable and accrued liabilities (excluding leasing costs)	295	2,145	7,546	8,481
Increase (decrease) in accounts payable relating to leasing costs	(1,109)	(341)	(841)	(969)
Change in non-cash working capital	\$ (1,378)	\$ 924	\$ 4,069	\$ 7,952

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

	<i>For the Three Months Ended September 30</i>		<i>For the Nine Months Ended September 30</i>	
	2006	2005	2006	2005
Interest	\$ 18,328	\$ 14,296	\$ 49,219	\$ 38,169
Income and large corporations taxes	18	18	25	18

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 \$12,099 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 nine months ended September 30, 2006, DPLP acquired \$220,600 of qualifying properties and accordingly \$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 \$16,681 and recorded a \$229 loss on the sale. As a result of the disposition, the Trust released a \$3,686 cumulative foreign currency loss from its foreign currency translation adjustment which was recognized as part of the loss on disposal. 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

The Trust recognized a \$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.

CORPORATE INFORMATION

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Email: info@dundeereit.com
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Taxation of Distributions

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

For more detailed information, please visit our web site.

Stock Exchange Listing

The Toronto Stock Exchange

Listing Symbols

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

Distribution Reinvestment and Unit Purchase Plan (DRIP)

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

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

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

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

To enrol contact:

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

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

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



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