

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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



**MICHAEL J. COOPER**  
President and  
Chief Executive Officer



**J. MICHAEL KNOWLTON**  
Executive Vice President and  
Chief Financial Officer

Toronto, Ontario  
February 22, 2006

# AUDITORS' REPORT

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To the Unitholders of Dundee Real Estate Investment Trust

We have audited the consolidated balance sheets of Dundee Real Estate Investment Trust as at December 31, 2005 and 2004 and the consolidated statements of net income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

CHARTERED ACCOUNTANTS

Toronto, Ontario  
February 10, 2006

# CONSOLIDATED FINANCIAL STATEMENTS

## DUNDEE REAL ESTATE INVESTMENT TRUST CONSOLIDATED BALANCE SHEETS

<i>(in thousands of dollars)</i>	<i>Note</i>	<i>December 31, 2005</i>	<i>December 31, 2004</i>
<b>Assets</b>			
Rental properties	4	<b>\$ 1,328,395</b>	\$ 1,057,231
Deferred costs	5	<b>65,285</b>	50,346
Amounts receivable	6	<b>13,378</b>	9,276
Prepaid expenses and other assets	7	<b>27,175</b>	32,927
Cash and cash equivalents		<b>16,516</b>	17,331
Intangible assets	8	<b>56,964</b>	30,297
Discontinued operations' assets	21	-	2,384
		<b>\$ 1,507,713</b>	\$ 1,199,792
<b>Liabilities</b>			
Debt	9	<b>\$ 943,621</b>	\$ 693,155
Amounts payable and accrued liabilities	10	<b>32,260</b>	24,628
Distributions payable	11	<b>5,356</b>	4,597
Future income tax liability	15	<b>1,577</b>	5,359
Intangible liabilities	8	<b>6,181</b>	3,239
Discontinued operations' liabilities	21	-	2,013
		<b>988,995</b>	732,991
<b>Non-controlling Interest</b>	12	<b>146,976</b>	148,256
<b>Unitholders' Equity</b>	12	<b>371,742</b>	318,545
		<b>\$ 1,507,713</b>	\$ 1,199,792

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**

For the Year Ended December 31  
(in thousands of dollars, except per unit amounts)

	Note	2005	2004
<b>Revenues</b>			
Rental properties revenue		\$ 221,576	\$ 185,483
Interest and fee income		2,144	2,232
		<b>223,720</b>	<b>187,715</b>
<b>Expenses</b>			
Rental properties operating expenses		99,541	84,300
Interest	14	53,960	43,031
Depreciation of rental properties		29,575	25,335
Amortization of deferred leasing costs and intangibles		19,643	12,220
General and administrative		5,408	5,201
		<b>208,127</b>	<b>170,087</b>
<b>Income Before the Undernoted Items</b>			
Provision for impairment in value of rental property	24	(11,533)	–
Gain on disposal of rental property		–	155
Dilution gain	12	1,890	1,731
		<b>5,950</b>	<b>19,514</b>
<b>Income Before Income and Large Corporations Taxes</b>			
<b>Income Taxes</b>			
Current income and large corporations taxes	15	181	113
Future income taxes		(3,653)	(2,013)
		<b>(3,472)</b>	<b>(1,900)</b>
<b>Income Before Non-Controlling Interest and Discontinued Operations</b>			
		<b>9,422</b>	<b>21,414</b>
<b>Income Attributable to Non-Controlling Interest</b>			
		<b>(2,622)</b>	<b>(6,374)</b>
<b>Income Before Discontinued Operations</b>			
		<b>6,800</b>	<b>15,040</b>
<b>Discontinued Operations</b>			
	21	<b>(2,491)</b>	<b>(10,687)</b>
<b>Net Income</b>			
		<b>\$ 4,309</b>	<b>\$ 4,353</b>
<b>Basic Income (Loss) per Unit</b>			
Continuing operations	16	\$ 0.40	\$ 0.93
Discontinued operations		(0.15)	(0.66)
<b>Net Income</b>			
		<b>\$ 0.25</b>	<b>\$ 0.27</b>
<b>Diluted Income (Loss) per Unit</b>			
Continuing operations	16	\$ 0.30	\$ 0.83
Discontinued operations		(0.14)	(0.65)
<b>Net Income</b>			
		<b>\$ 0.16</b>	<b>\$ 0.18</b>

See accompanying notes to the consolidated financial statements

**DUNDEE REAL ESTATE INVESTMENT TRUST**  
**CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY**

<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>
<b>Unitholders' Equity,</b>							
<b>January 1, 2005</b>		<b>16,819,963</b>	<b>\$ 357,585</b>	<b>\$ 11,535</b>	<b>\$ (47,449)</b>	<b>\$ (3,126)</b>	<b>\$ 318,545</b>
Net income		-	-	4,309	-	-	4,309
Distributions paid		-	-	-	(34,462)	-	(34,462)
Distributions payable		-	-	-	(3,769)	-	(3,769)
Public offering of units	12	2,990,000	74,750	-	-	-	74,750
Distribution Reinvestment Plan	12	532,817	13,785	-	-	-	13,785
Unit Purchase Plan	12	8,725	232	-	-	-	232
Conversion of 6.5%							
Debentures to equity	12	81,040	2,026	-	-	-	2,026
Redemption of units		(100)	(2)	-	-	-	(2)
Deferred Unit Incentive Plan	12	16,764	830	-	-	-	830
Issue costs		-	(3,728)	-	-	-	(3,728)
Equity component of 5.7%							
Debentures	9	-	1,200	-	-	-	1,200
Change in foreign currency translation adjustment		-	-	-	-	(1,974)	(1,974)
<b>Unitholders' Equity,</b>							
<b>December 31, 2005</b>		<b>20,449,209</b>	<b>\$ 446,678</b>	<b>\$ 15,844</b>	<b>\$ (85,680)</b>	<b>\$ (5,100)</b>	<b>\$ 371,742</b>

<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>
<b>Unitholders' Equity,</b>							
<b>January 1, 2004</b>		12,094,217	\$ 247,147	\$ 7,182	\$ (11,370)	\$ (1,878)	\$ 241,081
Net income		-	-	4,353	-	-	4,353
Distributions paid		-	-	-	(32,990)	-	(32,990)
Distributions payable		-	-	-	(3,089)	-	(3,089)
Public offering of units	12	4,537,000	110,022	-	-	-	110,022
Distribution Reinvestment Plan	12	175,009	4,214	-	-	-	4,214
Unit Purchase Plan	12	7,027	169	-	-	-	169
Redemption of units		(1,479)	(30)	-	-	-	(30)
Deferred Unit Incentive Plan	12	8,189	886	-	-	-	886
Issue costs		-	(5,423)	-	-	-	(5,423)
Equity component of 6.5%							
Debentures	9	-	600	-	-	-	600
Change in foreign currency translation adjustment		-	-	-	-	(1,248)	(1,248)
<b>Unitholders' Equity,</b>							
<b>December 31, 2004</b>		<b>16,819,963</b>	<b>\$ 357,585</b>	<b>\$ 11,535</b>	<b>\$ (47,449)</b>	<b>\$ (3,126)</b>	<b>\$ 318,545</b>

See accompanying notes to the consolidated financial statements

**DUNDEE REAL ESTATE INVESTMENT TRUST**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Year Ended December 31  
(in thousands of dollars)

	Note	2005	2004
<b>Generated from (Utilized in) Operating Activities</b>			
Net income		\$ 4,309	\$ 4,353
Non-cash items:			
Depreciation of rental properties		29,743	26,364
Amortization of deferred leasing costs and intangibles		19,985	12,833
Amortization of deferred financing costs		1,551	1,055
Amortization of marked-to-market adjustment on acquired debt		(2,012)	(1,438)
Provision for impairment in value of rental property	24	11,533	–
Loss on disposal of rental properties		3,620	16,426
Deferred unit compensation expense		830	886
Future income taxes		(3,653)	(2,013)
Amortization of market rent adjustments on acquired leases		(331)	(130)
Straight-line rent adjustment		(3,688)	(4,264)
Dilution gain		(1,890)	(1,731)
Non-controlling interest		1,523	1,556
		<b>61,520</b>	53,897
Deferred leasing costs incurred		(12,427)	(14,347)
Change in non-cash working capital	23	4,866	5,456
		<b>53,959</b>	45,006
<b>Generated from (Utilized in) Investing Activities</b>			
Investment in rental properties		(7,833)	(7,063)
Acquisition of rental properties	3	(275,024)	(154,225)
Acquisition deposit on rental properties		(880)	–
Investment in mezzanine loan	7	(750)	(10,476)
Net proceeds from disposal of rental properties		8,118	52,647
Change in restricted cash, net		8,677	(351)
		<b>(267,692)</b>	(119,468)
<b>Generated from (Utilized in) Financing Activities</b>			
Mortgages placed, net of costs		155,621	83,413
Mortgage principal repayments		(17,957)	(15,150)
Mortgage lump sum repayments		(46,076)	(56,538)
Term debt placed, net of costs		–	60,083
Term debt principal repayments		(501)	(956)
Term debt lump sum repayments		(7,492)	(121,153)
Convertible debentures issued, net of costs		95,443	71,410
Revolving credit facility, net		–	(7,026)
Demand non-revolving credit facility		(6,107)	–
Distributions paid on REIT Units, Series A	11	(31,700)	(31,003)
Units issued net of costs		71,687	104,737
		<b>212,918</b>	87,817
<b>Increase (Decrease) in Cash and Cash Equivalents</b>		<b>(815)</b>	13,355
<b>Cash and Cash Equivalents, Beginning of Year</b>		<b>17,331</b>	3,976
<b>Cash and Cash Equivalents, End of Year</b>		<b>\$ 16,516</b>	\$ 17,331

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)

## 1. ORGANIZATION

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

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

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

At December 31, 2005, DRC directly and indirectly owned 317,403 REIT Units, Series A (“Units” or “REIT Units”) and 8,337,365 LP Class B Units, Series 1.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Revenue Recognition

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

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

### Rental Properties

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

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

### Purchase Price Allocations

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

### Intangible Assets and Liabilities

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

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

### Impairment of Long-lived Assets

The Trust uses a two-step process for determining when an impairment of rental properties and intangible assets should be recognized in the consolidated financial statements. If events or circumstances indicate that the carrying value of a rental property or intangible asset 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.

### Deferred Costs

Deferred costs may include:

- Deferred leasing costs, which include leasing fees and costs, leasehold improvements and tenant inducements, except for initial leasing costs which are included in Rental Properties, and deferred leasing costs acquired. Deferred leasing costs are depreciated on a straight-line basis over the term of the applicable lease;
- Deferred recoverable operating expenses, which are amortized to operating expenses over the period during which they are recoverable from tenants;
- Deferred financing costs, which include debt issue fees and expenses that are amortized to interest expense on a straight-line basis over the term of the debt; and
- Direct acquisition fees and costs, which exclude general and administrative costs, and which are deferred until the acquisition is completed and the costs are capitalized to the acquisition, or the acquisition is abandoned and the costs are written off.

### Impairment of Loans Receivable

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

### Discontinued Operations

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

### Convertible Debentures

Upon issuance, convertible debentures are separated into debt and equity components. These components are measured based on their respective estimated fair values at the date of issuance. The fair value of the debt component is estimated based on the present

value of future interest and principal payments due under the terms of the debenture using a discount rate for similar debt instruments without a conversion feature. The value assigned to the equity component is the estimated fair value ascribed to the holders' option to convert the debentures into Units. The difference between the fair value of the debt and the face value is recognized as interest expense on a straight-line basis over the term to maturity of the debentures with corresponding accretion to the principal of the debt.

### Foreign Currency Translation

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

### Income Taxes

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

### Unit-based Compensation Plan

Dundee REIT has a Deferred Unit Incentive Plan, as described in Note 12, that provides for the grant of Deferred Trust Units and Income Deferred Trust Units to trustees, officers and employees, and affiliates and their service providers. The Trust recognizes compensation expense on a straight-line basis over the period that the deferred units vest, based on the market price of REIT Units on the date of grant. Deferred Trust Units that have vested but for which the corresponding REIT Units have not been issued, and where the ultimate issuance of such REIT Units is simply a matter of the passage of time, are considered to be outstanding units from the date of vesting for basic income per unit calculations.

### Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Trust considers all short-term investments with an original maturity of three months or less to be cash equivalents, and excludes cash subject to restrictions that prevent its use for current purposes. As at December 31, 2005, cash and cash equivalents includes the Trust's proportionate share of cash balances of joint ventures of \$4,509 (December 31, 2004 – \$4,250). Excluded from cash and cash equivalents are amounts held for repayment of tenant security deposits as required by various lending agreements.

### Non-controlling Interest

On January 19, 2005, the Emerging Issues Committee of the CICA issued an Abstract of Issues Discussed titled "Exchangeable Securities Issued by Subsidiaries of Income Trusts" ("EIC-151") which requires income trusts with exchangeable securities issued by their subsidiaries to evaluate whether the exchangeable securities should be presented as Unitholders' equity or non-controlling interest on the consolidated balance sheet. In order to be presented as Unitholders' equity, the exchangeable securities must have distributions that are economically equivalent to distributions on units issued directly by the income trust and must also ultimately be exchanged for units of the income trust. The distributions on the LP Class B Units, Series 1 are economically equivalent to distributions on the REIT Units, Series A. However, because the LP Class B Units, Series 1 contain no conditions requiring either the conversion to REIT Units or restricting their transferability to third parties, the LP Class B Units, Series 1 are presented as non-controlling interest in the consolidated financial statements. As a result, the Trust has accounted for the investment of the net proceeds from equity offerings in DPLP using the purchase method. In addition, the issuance of LP Class B Units, Series 1 under the Distribution Reinvestment Plan has resulted in a dilution of the Trust's ownership of DPLP.

### Variable Interest Entities

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

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

### Comparative Figures

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

## 3. PROPERTY ACQUISITIONS

The Trust completed the following acquisitions during the years ended December 31, 2005 and 2004, which contributed to operating results effective from the acquisition date:

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

Year Ended December 31, 2004	Property Type	Interest Acquired	Acquired GLA (sq. ft.)	Occupancy on Acquisition	Purchase Price (000's)	Fair Value of Mortgage Assumed (000's)	Date Acquired
Pauls Portfolio, Toronto and Calgary	office, flex industrial	100%	1,598,000	98%	\$ 169,470	\$ 80,041	February 19, 2004
222-230 Queen Street, Ottawa							January 1, 2004/
	office	16.4% <sup>(1)</sup>	34,000	100%	6,059	2,225	March 1, 2004
720 Bay Street, Toronto	office	50%	124,000	100%	26,043	20,600	May 5, 2004
Geo-X Building, Calgary	flex industrial	100%	36,000	100%	6,561	–	May 12, 2004
Montréal Portfolio, Montréal	office	100%	323,000	100%	64,550	–	June 21, 2004
<b>Total</b>			2,115,000		\$ 272,683	\$ 102,866	

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

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

For the Year Ended December 31	2005	2004
Rental properties		
Land	\$ 38,673	\$ 49,078
Buildings	261,449	183,621
Under development	6,189	–
	<b>306,311</b>	232,699
Deferred leasing costs acquired	12,056	9,100
Tenant loan receivables	177	–
Intangible assets		
Value of in-place leases	16,662	13,060
Lease origination costs	4,214	4,311
Value of above market rent leases	1,788	3,358
Value of tenant relationships	13,467	14,346
	<b>354,675</b>	276,874
Intangible liabilities		
Value of below market rent leases	(4,054)	(3,877)
Accounts payable and accrued liabilities	–	(314)
<b>Total purchase price</b>	<b>\$ 350,621</b>	<b>\$ 272,683</b>

The consideration paid consists of:

Cash		
Paid during the year	\$ 275,024	\$ 154,225
Deposit	450	14,300
	<b>275,474</b>	168,525
Assumed mortgages at fair value	74,478	102,866
Assumed accounts payable and accrued liabilities	669	1,292
<b>Total consideration</b>	<b>\$ 350,621</b>	<b>\$ 272,683</b>

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

#### 4. RENTAL PROPERTIES

	December 31, 2005			December 31, 2004		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 233,502	\$ –	\$ 233,502	\$ 195,693	\$ –	\$ 195,693
Buildings and improvements	1,170,111	(84,412)	1,085,699	916,737	(56,279)	860,458
Equipment	2,661	(1,927)	734	5,264	(4,184)	1,080
Rental properties under development	8,460	–	8,460	–	–	–
<b>Total</b>	<b>\$ 1,414,734</b>	<b>\$ (86,339)</b>	<b>\$ 1,328,395</b>	<b>\$ 1,117,694</b>	<b>\$ (60,463)</b>	<b>\$ 1,057,231</b>

#### 5. DEFERRED COSTS

	December 31, 2005			December 31, 2004		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Deferred leasing costs	\$ 71,133	\$ (24,049)	\$ 47,084	\$ 52,032	\$ (16,835)	\$ 35,197
Deferred recoverable costs	13,462	(5,970)	7,492	13,513	(5,426)	8,087
Deferred financing costs	13,819	(3,881)	9,938	8,779	(2,575)	6,204
Other deferred costs	1,617	(846)	771	1,579	(721)	858
<b>Total</b>	<b>\$ 100,031</b>	<b>\$ (34,746)</b>	<b>\$ 65,285</b>	<b>\$ 75,903</b>	<b>\$ (25,557)</b>	<b>\$ 50,346</b>

Amortization of deferred recoverable costs included in operating expenses for the year ended December 31, 2005 is \$1,751 (December 31, 2004 – \$1,950).

#### 6. AMOUNTS RECEIVABLE

Amounts receivable are net of credit adjustments of \$3,718 (December 31, 2004 – \$2,627). Total U.S. dollar denominated amounts receivable relating to self-sustaining foreign operations are US\$560 (December 31, 2004 – US\$430). Amounts receivable include straight-line rents receivable of \$9,944 (December 31, 2004 – \$6,248).

#### 7. PREPAID EXPENSES AND OTHER ASSETS

	December 31, 2005	December 31, 2004
Prepaid expenses	\$ 5,576	\$ 4,961
Mezzanine loan	12,513	11,052
Vendor loan	3,450	3,465
Deposits	1,282	458
Restricted cash	4,354	12,991
<b>Total</b>	<b>\$ 27,175</b>	<b>\$ 32,927</b>

The Trust has provided a mezzanine loan in the principal amount of \$11,226 to the Airport Corporate Centre West Joint Venture (“ACCW”) to finance certain development projects. The loan is to be repaid on the earlier of February 19, 2014 or the date the development projects are sold. Interest is accrued monthly and payment is contingent on the cash flows generated by the development. To date, no cash interest has been received but interest income at an effective rate of 6.34% has been accrued to reflect what the Trust estimates will be collectible at the completion of the project. The loan is subordinate to all third party debt of the borrower. The estimated fair value of the mezzanine loan is \$13,000.

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.

The Trust has entered into a mortgage loan purchase agreement with a lender of ACCW to purchase the loan along with all security for an amount equal to the loan outstanding plus accrued interest. The closing date is the earlier of the delivery of a default notice by the lender and April 30, 2007. The loan balance at December 31, 2005 is \$16,522.

## 8. INTANGIBLE ASSETS AND LIABILITIES

	December 31, 2005			December 31, 2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
<b>Intangible Assets</b>						
Value of above market rent leases	\$ 5,113	\$ (1,256)	\$ 3,857	\$ 3,358	\$ (508)	\$ 2,850
Value of in-place leases	28,614	(6,413)	22,201	13,060	(2,609)	10,451
Lease origination costs	8,465	(1,683)	6,782	4,312	(550)	3,762
Value of tenant relationships	27,418	(3,294)	24,124	14,348	(1,114)	13,234
<b>Total</b>	<b>\$ 69,610</b>	<b>\$ (12,646)</b>	<b>\$ 56,964</b>	<b>\$ 35,078</b>	<b>\$ (4,781)</b>	<b>\$ 30,297</b>

	December 31, 2005			December 31, 2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
<b>Intangible Liabilities</b>						
Value of below market rent leases	\$ 7,843	\$ (1,662)	\$ 6,181	\$ 3,877	\$ (638)	\$ 3,239

## 9. DEBT

	December 31, 2005	December 31, 2004
Mortgages	\$ 756,920	\$ 591,304
Convertible debentures	171,368	74,430
Term debt	15,333	21,437
Demand non-revolving credit facility	—	5,984
<b>Total</b>	<b>\$ 943,621</b>	<b>\$ 693,155</b>

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

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

On June 21, 2004, the Trust issued \$75,000 principal amount convertible unsecured subordinated debentures (the "6.5% Debentures"). The 6.5% Debentures bear interest at 6.5% per annum, payable semi-annually on June 30 and December 31 each year, and mature on June 30, 2014. Each 6.5% Debenture is convertible at any time by the debenture holder into 40 REIT Units, Series A per one thousand dollars of face value, representing a conversion price of \$25.00 per unit. The 6.5% Debentures may not be redeemed prior to June 30, 2008. On or after June 30, 2008, but prior to June 30, 2010, the 6.5% Debentures may be redeemed by the Trust in whole or in part at a price equal to the principal amount plus accrued and unpaid interest, provided the market price for the Trust's units is not less than \$31.25. On or after June 30, 2010, the 6.5% Debentures may be redeemed by the Trust at a

price equal to the principal amount plus accrued and unpaid interest. In accordance with Section 3860 of the CICA Handbook, the 6.5% Debentures were initially recorded on the consolidated balance sheet as debt of \$74,400 and equity of \$600. Issue costs of \$3,605 and the discount related to the offering are amortized to interest expense over ten years.

A revolving credit facility is available up to a formula-based maximum not to exceed \$80,000, bearing interest generally at the bank prime rate (5.00% as at December 31, 2005) plus 0.75% or bankers' acceptance rates. The facility expires on June 19, 2006 and is secured by a first ranking collateral mortgage on nine of the Trust's properties and a second ranking collateral mortgage on two properties. As at December 31, 2005, the maximum amount available under this facility was \$79,549, of which \$59 was utilized in the form of letters of guarantee (December 31, 2004 – \$2,076). As at December 31, 2005, the amount still available under this facility was \$79,490. The demand non-revolving credit facility, a U.S. dollar term loan credit facility, was discharged on May 6, 2005 and was not renewed.

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	
	December 31, 2005	December 31, 2004		December 31, 2005	December 31, 2004
<b>Fixed Rate</b>					
Mortgages	<b>6.17%</b>	6.70%	<b>2006 – 2019</b>	<b>\$ 756,920</b>	\$ 591,304
Term debt	<b>6.70%</b>	6.59%	<b>2006 – 2008</b>	<b>271</b>	432
Convertible debentures	<b>6.19%</b>	6.63%	<b>2014 – 2015</b>	<b>171,368</b>	74,430
<b>Total fixed rate</b>	<b>6.17%</b>	6.69%		<b>928,559</b>	666,166
<b>Variable Rate</b>					
Term debt	<b>5.65%</b>	4.74%	<b>2007</b>	<b>15,062</b>	21,005
Revolving credit facility	<b>5.75%</b>	5.00%	<b>2006</b>	<b>–</b>	–
Demand non-revolving credit facility	<b>–</b>	6.00%	<b>–</b>	<b>–</b>	5,984
<b>Total variable rate</b>	<b>5.65%</b>	5.02%		<b>15,062</b>	26,989
<b>Total debt</b>	<b>6.16%</b>	6.62%		<b>\$ 943,621</b>	\$ 693,155

The variable rate term debt outstanding at December 31, 2005 bears interest generally at the rate of one-month bankers' acceptance plus 2.4% (December 31, 2004 – plus 2.15%). At December 31, 2005, the rate of one-month bankers' acceptance was 3.25% (December 31, 2004 – 2.59%).

The scheduled principal repayments and debt maturities are as follows:

Years ending December 31,	Mortgages	Term Debt	Convertible Debentures	Total
2006	\$ 67,419	\$ 382	\$ –	\$ 67,801
2007	38,688	14,894	–	53,582
2008	111,129	57	–	111,186
2009	131,354	–	–	131,354
2010	53,516	–	–	53,516
2011 and thereafter	354,814	–	171,368	526,182
	<b>\$ 756,920</b>	<b>\$ 15,333</b>	<b>\$ 171,368</b>	<b>\$ 943,621</b>

Mortgages include an \$8,488 marked-to-market adjustment (December 31, 2004 – \$7,190) to reflect the fair value of mortgages at the time the mortgaged property was acquired. The 6.5% and 5.7% Debentures are net of a \$1,606 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.

On May 2, 2005, the Trust repaid all of its U.S. dollar denominated mortgages. At December 31, 2004, US\$19,988 of debt secured by assets located in the United States was outstanding.

The estimated fair value of debt is as follows:

	December 31, 2005	December 31, 2004
Mortgages	<b>\$ 788,995</b>	\$ 633,081
Convertible debentures	<b>170,771</b>	78,525
Term debt	<b>15,354</b>	21,481
Demand non-revolving credit facility	<b>-</b>	5,984
<b>Total</b>	<b>\$ 975,120</b>	\$ 739,071

Mortgages at December 31, 2005 include US\$Nil (December 31, 2004 – US\$19,988) of debt secured by assets located in the United States relating to self-sustaining foreign operations.

## 10. AMOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2005	December 31, 2004
Trade payables	<b>\$ 2,074</b>	\$ 1,094
Accrued liabilities and other payables	<b>15,787</b>	13,583
Accrued interest	<b>5,428</b>	3,183
Deposits	<b>6,646</b>	4,908
Rent received in advance	<b>2,325</b>	1,860
<b>Total</b>	<b>\$ 32,260</b>	\$ 24,628

Total U.S. dollar denominated amounts payable and accrued liabilities relating to self-sustaining foreign operations at December 31, 2005 are US\$496 (December 31, 2004 – US\$598).

## 11. DISTRIBUTIONS

The following table sets out distributions for the year ended December 31, 2005.

	REIT Units, Series A	LP Class B Units, Series 1	Total
Paid in cash	\$ 31,700	\$ -	\$ 31,700
Paid by way of reinvestment in REIT Units, Series A	5,851	7,934	13,785
Paid by way of reinvestment in LP Class B Units, Series 1	-	10,791	10,791
Less: Payable at December 31, 2004	(3,089)	(1,508)	(4,597)
Plus: Payable at December 31, 2005	3,769	1,587	5,356
<b>Total</b>	<b>\$ 38,231</b>	<b>\$ 18,804</b>	<b>\$ 57,035</b>

The amount payable at December 31, 2005 was satisfied on January 15, 2006 by way of \$3,028 in cash and \$2,328 by way of 87,694 REIT Units, Series A. Included in the total distributions is the 4% bonus distribution in the amount of \$963 that forms part of the Distribution Reinvestment Plan. As of August 15, 2005, the holders of LP Class B Units, Series 1 elected to receive their distributions in the form of REIT Units, Series A.

## 12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTEREST

	December 31, 2005		December 31, 2004	
	Number of Units	Amount	Number of Units	Amount
REIT Units, Series A	<b>20,449,209</b>	<b>\$ 371,742</b>	16,819,963	\$ 318,545
LP Class B Units, Series 1	<b>8,337,365</b>	<b>146,976</b>	7,924,084	148,256
<b>Total</b>	<b>28,786,574</b>	<b>\$ 518,718</b>	24,744,047	\$ 466,801

### Dundee REIT Units

Dundee REIT is authorized to issue an unlimited number of REIT Units and an unlimited number of Special Trust Units. The REIT Units are divided into and issuable in two series: REIT Units, Series A and REIT Units, Series B. REIT Units are redeemable at the

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

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

At Dundee REIT's annual and special meeting held on May 5, 2005, unitholders approved an amendment to the Declaration of Trust authorizing REIT Units, Series B to be convertible at any time at the option of the holder into REIT Units, Series A on a one-for-one basis. Previously, the Trust was obligated to list the REIT Units, Series B separately on the Toronto Stock Exchange. To date, no REIT Units, Series B have been issued.

Special Trust Units are issued in conjunction with LP Class B Units, Series 1 of DPLP. The Special Trust Units are not transferable separately from the LP Class B Units, Series 1 to which they relate and will be automatically redeemed for a nominal amount and cancelled upon surrender or exchange of such LP Class B Units, Series 1. Each Special Trust Unit entitles the holder to the number of votes at any meeting of Unitholders that is equal to the number of REIT Units, Series B that may be obtained upon the surrender or exchange of the LP Class B Units, Series 1 to which they relate. At December 31, 2005, 8,337,365 Special Trust Units were issued and outstanding (December 31, 2004 – 7,924,084 issued and outstanding). These Special Trust Units are recorded at nominal value.

Dundee REIT's Declaration of Trust provides Dundee Corporation with a pre-emptive right pursuant to which Dundee REIT will not issue any REIT Units, or any securities convertible into REIT Units, to any person without first making an offer to Dundee Corporation to issue that number of REIT Units or securities or a comparable number of LP Class B Units, Series 1 necessary to maintain the percentage of the outstanding voting interest in Dundee REIT held by Dundee Corporation and its affiliates at the date of offer. DRC is an indirect subsidiary of Dundee Corporation.

#### **DPLP Units and Non-controlling Interest**

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

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

The LP Class A Units and LP Class B Units, Series 2 are entitled to vote at meetings of the limited partners of DPLP and each unit entitles the holder to a distribution equal to distributions on the LP Class B Units, Series 1. At December 31, 2005, 20,449,209 LP Class A Units (December 31, 2004 – 16,819,963), 8,337,365 LP Class B Units, Series 1 (December 31, 2004 – 7,924,084) and one LP Class B Unit, Series 2 (December 31, 2004 – one) were issued and outstanding. As at December 31, 2005 and December 31, 2004, all issued and outstanding LP Class A Units and the outstanding LP Class B Unit, Series 2 of DPLP were owned indirectly by Dundee REIT and have been eliminated in the consolidated balance sheets.

	LP Class B Units, Series 1		Cumulative Foreign Currency Translation Adjustment	Total
	Number of Units	Amount		
<b>Non-controlling Interest, January 1, 2004</b>	7,211,431	\$ 145,993	\$ (1,119)	\$ 144,874
Income from continuing operations	–	6,374	–	6,374
Loss from discontinued operations	–	(4,818)	–	(4,818)
Distributions paid	–	(15,833)	–	(15,833)
Distributions payable	–	(1,508)	–	(1,508)
Distribution Reinvestment Plan	712,653	17,206	–	17,206
Impact of dilution	–	2,314	–	2,314
Change in foreign currency translation adjustment	–	–	(353)	(353)
<b>Non-controlling Interest, December 31, 2004</b>	7,924,084	149,728	(1,472)	148,256
Income from continuing operations	–	<b>2,622</b>	–	<b>2,622</b>
Loss from discontinued operations	–	<b>(1,099)</b>	–	<b>(1,099)</b>
Distributions paid	–	<b>(17,217)</b>	–	<b>(17,217)</b>
Distributions payable	–	<b>(1,587)</b>	–	<b>(1,587)</b>
Distribution Reinvestment Plan	<b>413,281</b>	<b>10,791</b>	–	<b>10,791</b>
Impact of dilution	–	<b>5,818</b>	–	<b>5,818</b>
Change in foreign currency translation adjustment	–	–	<b>(608)</b>	<b>(608)</b>
<b>Non-controlling Interest, December 31, 2005</b>	<b>8,337,365</b>	<b>\$ 149,056</b>	<b>\$ (2,080)</b>	<b>\$ 146,976</b>

### Public Offering of Units

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

On February 19, 2004, Dundee REIT completed a public offering for gross cash proceeds of \$110,022 through the issuance of 4,537,000 REIT Units, Series A at a price of \$24.25 per unit. Costs relating to the offering totalled \$5,423 and were charged directly to Unitholders' equity. The Trust used the purchase method to account for the investment of the net proceeds in DPLP and recorded a purchase adjustment relating to the fair value increment of rental properties acquired of \$4,045.

### Distribution Reinvestment and Unit Purchase Plan ("DRIP")

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

The DRIP allows unitholders, other than unitholders who are resident of or present in the United States, to elect to have all cash distributions from Dundee REIT reinvested in additional REIT Units, Series A. Unitholders, who so elect, receive an additional distribution of REIT Units, Series A equal to 4% of each cash distribution that was reinvested. A similar distribution reinvestment arrangement exists for holders of LP Class B Units, Series 1. For the year ended December 31, 2005, 532,817 REIT Units, Series A and 413,281 LP Class B Units, Series 1 were issued under the DRIP for \$13,785 and \$10,791, respectively. For the year ended December 31, 2004, 175,009 REIT Units, Series A and 712,653 LP Class B Units, Series 1 were issued under the DRIP for \$4,214 and \$17,206, respectively. The price per Unit is calculated by reference to a five-day weighted average closing price of the Units on the TSX preceding the relevant distribution date, which typically is on or about the 15th day of the month following the declaration.

As a result of the participation of the holders of LP Class B Units, Series 1 in the Distribution Reinvestment Plan for periods prior to August 15, 2005, the Trust's effective ownership in DPLP has been diluted. Accordingly, the Trust recognized a dilution gain of \$1,890 during the year ended December 31, 2005 (December 31, 2004 – \$1,731).

### Unit Purchase Plan

The Unit Purchase Plan feature of the DRIP allows existing unitholders to purchase additional REIT Units, Series A of Dundee REIT. Participation in the Unit Purchase Plan is optional and subject to certain limitations on the maximum number of additional REIT Units, Series A that may be acquired. The price per Unit is calculated in a similar manner to the Distribution Reinvestment Plan. No commission, service charges or brokerage fees are payable by participants in connection with either the Distribution Reinvestment Plan or Unit Purchase Plan. For the year ended December 31, 2005, 8,725 REIT Units, Series A were issued under the Unit Purchase Plan for \$232. For the year ended December 31, 2004, 7,027 REIT Units, Series A were issued under the Unit Purchase Plan for \$169.

### Conversion of 6.5% Debentures

During the year ended December 31, 2005, the Trust issued 81,040 REIT Units, Series A upon conversion of \$2,026 principal amount of the 6.5% Debentures.

### Deferred Unit Incentive Plan

The Deferred Unit Incentive Plan provides for the grant of Deferred Trust Units and Income Deferred Trust Units to trustees, officers and employees, and affiliates and their service providers. Deferred Trust Units are granted at the discretion of the trustees while Income Deferred Trust Units are granted to Deferred Trust unitholders based on distributions paid on the REIT Units, Series A. Once vested, each Deferred Trust Unit and Income Deferred Trust Unit entitles the holder to receive a REIT Unit, Series A at no cost. Deferred Trust Units vest evenly over a three- or five-year period on the anniversary date of the grant, while Income Deferred Trust Units vest on the same date as the associated Deferred Trust Unit. Subject to an election for certain participants to postpone receipt of REIT Units, such units will be issued immediately after vesting. Up to a maximum of 500,000 Deferred Trust Units are issuable under the Deferred Unit Incentive Plan. Compensation expense is recorded based on the fair market value of a REIT Unit, Series A at the date of grant and amortized as earned over the vesting period or the remaining service period of the participant, whichever period is less. During the year ended December 31, 2005, \$830 (December 31, 2004 – \$886) of compensation expense was recorded and is included in general and administrative expenses. Income Deferred Trust Units are accounted as a distribution and an issuance of REIT Units, Series A when the related Deferred Trust Units vest. No amount in relation to Income Deferred Trust Units is recognized in net income.

	Weighted Average Grant Date Value	Deferred Trust Units	Income Deferred Trust Units	Total Units
Outstanding at January 1, 2004	\$ 21.35	88,200	2,858	91,058
Granted during the period	24.25	71,700	10,500	82,200
Cancelled	21.35	(1,300)	(84)	(1,384)
Issuance of REIT Units Series A on vesting	21.35	(7,457)	(732)	(8,189)
Outstanding at December 31, 2004	22.70	151,143	12,542	163,685
Granted during the period	<b>25.67</b>	<b>65,300</b>	<b>14,753</b>	<b>80,053</b>
Cancelled	<b>23.60</b>	<b>(1,600)</b>	<b>(146)</b>	<b>(1,746)</b>
Issuance of REIT Units Series A on vesting	<b>22.70</b>	<b>(14,665)</b>	<b>(2,099)</b>	<b>(16,764)</b>
Fractional units paid in cash	-	(11)	(9)	(20)
<b>Outstanding and payable at December 31, 2005</b>	<b>\$ 23.60</b>	<b>200,167</b>	<b>25,041</b>	<b>225,208</b>
<b>Vested but not issued at December 31, 2005</b>	<b>\$ 23.60</b>	<b>38,033</b>	<b>7,543</b>	<b>45,576</b>

## 13. JOINT VENTURES AND CO-OWNERSHIPS

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

	Total		Proportionate Share	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
Assets	\$ 302,028	\$ 338,654	\$ 151,831	\$ 177,865
Liabilities	213,300	227,304	106,789	113,841

	Proportionate Share For the Year Ended December 31	
	2005	2004
Revenues	\$ 27,603	\$ 32,096
Expenses	22,225	25,965
	\$ 5,378	\$ 6,131

The revenues and expenses above are from continuing operations. Joint venture revenues related to discontinued operations amounted to \$Nil (year ended December 31, 2004 – \$589). Joint venture expenses related to discontinued operations amounted to \$Nil (year ended December 31, 2004 – \$(175)).

	Proportionate Share For the Year Ended December 31	
	2005	2004
<b>Cash flow generated from (utilized in):</b>		
Operating activities	\$ 9,375	\$ 9,099
Financing activities	(10,492)	(16,732)
Investing activities	1,376	9,101
<b>Increase in Cash and Cash Equivalents</b>	\$ 259	\$ 1,468

The Trust is contingently liable for the obligations of the other owners of the unincorporated joint ventures at December 31, 2005 in the aggregate amount of \$101,944 (December 31, 2004 – \$110,648). In each case, however, the co-owners' share of assets is available to satisfy these obligations.

At December 31, 2005, Dundee REIT's proportionate share of the assets and liabilities of DMLP are as follows:

	December 31, 2005	December 31, 2004
Assets	\$ 3,785	\$ 3,882
Liabilities	\$ 1,493	\$ 1,323

## 14. INTEREST

Interest incurred and charged to earnings is recorded as follows:

For the Year Ended December 31	2005	2004
Interest expense incurred, at stated rate of debt	\$ 54,703	\$ 43,527
Amortization of deferred financing costs	1,523	942
Marked-to-market rate adjustment	(2,012)	(1,438)
Interest capitalized	(254)	–
<b>Interest Expense</b>	\$ 53,960	\$ 43,031

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

## 15. INCOME AND LARGE CORPORATIONS TAXES

### Dundee REIT

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

Canadian and U.S. based incorporated subsidiaries are subject to tax on their respective taxable income at their corresponding legislated rates. A future income tax liability as at December 31, 2005 of \$1,577 (December 31, 2004 – \$5,359) has been recorded

to reflect the future tax obligations of these subsidiaries and comprises amounts resulting from the differences in tax and book values relating to the underlying rental properties. The reported carrying amount of Dundee REIT's net assets, excluding those in incorporated subsidiaries at December 31, 2005, exceeds the corresponding tax cost by approximately \$164,000 (December 31, 2004 – \$184,000). During the current year, the Trust recorded a \$4,514 future income tax recovery as a result of the provision for impairment in value of rental property (Note 24) recognized on its U.S. retail property. During the prior year, the Trust recorded a \$1,900 future tax recovery to adjust its estimate of the tax basis in its U.S. properties to amounts reported in filed tax returns.

## 16. INCOME PER UNIT

The weighted average number of units outstanding was as follows:

<i>For the Year Ended December 31</i>	<i>2005</i>	<i>2004</i>
REIT Units, Series A	<b>17,162,997</b>	16,120,272
Vested Deferred Trust Units	<b>22,352</b>	4,480
Total weighted-average number of units outstanding for basic income (loss) per unit amounts	<b>17,185,349</b>	16,124,752
Add incremental units:		
LP Class B Units, Series 1	<b>8,218,753</b>	7,567,000
Unvested Deferred Trust Units	<b>31,632</b>	31,821
Income Deferred Trust Units	<b>15,496</b>	6,120
Total weighted average number of units outstanding for diluted income (loss) per unit amounts	<b>25,451,230</b>	23,729,693

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

<i>For the Year Ended December 31</i>	<i>2005</i>	<i>2004</i>
Income before discontinued operations for basic income per unit amounts	<b>\$ 6,800</b>	\$ 15,040
Add: Income attributable to non-controlling interest	<b>2,622</b>	6,374
Depreciation expense	<b>111</b>	191
Deduct: Dilution gain	<b>(1,890)</b>	(1,731)
Income before discontinued operations for diluted per unit amounts	<b>\$ 7,643</b>	\$ 19,874

The 5,478,393 incremental units of an assumed conversion of both debenture issues for the year ended December 31, 2005 (December 31, 2004 – 1,590,164) have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

## 17. EMPLOYEE FUTURE BENEFITS

The Trust has a defined contribution pension plan available to all full-time employees who have been employed by the Trust for one year. The pension plan covers employees of the Trust, Dundee Realty Management Corp., and any other entity as appointed by the sponsor of the plan. The plan is sponsored by Dundee Realty Management Corp., a wholly owned subsidiary of DMLP. Total cost recognized and cash payments for employee future benefits for 2005, consisting of cash contributed to the defined contribution plan was \$108 (2004 – \$120).

## 18. SEGMENTED INFORMATION

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

## A. By Activity

For the Year Ended December 31, 2005	Office	Industrial	Retail	Segment Total	Discontinued Operations	Total
<b>Operations</b>						
Revenues	\$ 143,923	\$ 67,785	\$ 11,191	\$ 222,899	\$ 1,323	\$ 221,576
Operating expenses	(70,325)	(24,051)	(5,698)	(100,074)	(533)	(99,541)
Net operating income	73,598	43,734	5,493	122,825	790	122,035
Depreciation of rental properties	(17,669)	(10,179)	(1,895)	(29,743)	(168)	(29,575)
Amortization of deferred leasing costs and intangibles	(12,175)	(7,018)	(792)	(19,985)	(342)	(19,643)
<b>Segment Income</b>	<b>\$ 43,754</b>	<b>\$ 26,537</b>	<b>\$ 2,806</b>	<b>\$ 73,097</b>	<b>\$ 280</b>	<b>72,817</b>
Interest expense						(53,960)
General and administrative expenses						(5,408)
Interest and fee income						2,144
Provision for impairment of value of rental property						(11,533)
Dilution gain						1,890
Income taxes						3,472
Income attributable to non-controlling interest						(2,622)
Discontinued operations						(2,491)
<b>Net Income</b>						<b>\$ 4,309</b>
<b>Segment Rental Properties</b>	<b>\$ 804,726</b>	<b>\$ 480,426</b>	<b>\$ 43,243</b>	<b>\$ 1,328,395</b>	<b>\$ -</b>	<b>\$ 1,328,395</b>
<b>Capital Expenditures</b>						
Investment in rental properties	\$ (3,609)	\$ (3,722)	\$ (502)	\$ (7,833)		
Acquisition of rental properties	(195,970)	(79,054)	-	(275,024)		
Deferred leasing costs	(6,763)	(4,722)	(942)	(12,427)		
<b>Total Capital Expenditures</b>	<b>\$ (206,342)</b>	<b>\$ (87,498)</b>	<b>\$ (1,444)</b>	<b>\$ (295,284)</b>		

  

For the Year Ended December 31, 2004	Office	Industrial	Retail	Segment Total	Discontinued Operations	Total
<b>Operations</b>						
Revenues	\$ 116,380	\$ 58,929	\$ 20,024	\$ 195,333	\$ 9,850	\$ 185,483
Operating expenses	(57,696)	(21,052)	(10,432)	(89,180)	(4,880)	(84,300)
Net operating income	58,684	37,877	9,592	106,153	4,970	101,183
Depreciation of rental properties	(14,804)	(8,794)	(2,765)	(26,363)	(1,028)	(25,335)
Amortization of deferred leasing costs and intangibles	(5,655)	(6,219)	(960)	(12,834)	(614)	(12,220)
<b>Segment Income</b>	<b>\$ 38,225</b>	<b>\$ 22,864</b>	<b>\$ 5,867</b>	<b>\$ 66,956</b>	<b>\$ 3,328</b>	<b>63,628</b>
Interest expense						(43,031)
General and administrative expenses						(5,201)
Interest and fee income						2,232
Gain on sale of rental property						155
Dilution gain						1,731
Income taxes						1,900
Income attributable to non-controlling interest						(6,374)
Discontinued operations						(10,687)
<b>Net Income</b>						<b>\$ 4,353</b>
<b>Segment Rental Properties</b>	<b>\$ 597,970</b>	<b>\$ 395,088</b>	<b>\$ 66,186</b>	<b>\$ 1,059,244</b>	<b>\$ 2,013</b>	<b>\$ 1,057,231</b>
<b>Capital Expenditures</b>						
Investment in rental properties	\$ (953)	\$ (4,569)	\$ (1,541)	\$ (7,063)		
Acquisition of rental properties	(74,933)	(79,292)	-	(154,225)		
Deferred leasing costs	(8,584)	(4,003)	(1,760)	(14,347)		
<b>Total Capital Expenditures</b>	<b>\$ (84,470)</b>	<b>\$ (87,864)</b>	<b>\$ (3,301)</b>	<b>\$ (175,635)</b>		

## B. By Country

For the Year Ended December 31, 2005	Canada	U.S.	Segment Total
<b>Operations</b>			
Revenues	\$ 213,899	\$ 9,000	\$ 222,899
Operating expenses	(95,215)	(4,859)	(100,074)
Net operating income	118,684	4,141	122,825
Depreciation of rental properties	(28,131)	(1,612)	(29,743)
Amortization of deferred leasing costs and intangibles	(19,671)	(314)	(19,985)
<b>Segment Income</b>	<b>\$ 70,882</b>	<b>\$ 2,215</b>	<b>\$ 73,097</b>
<b>Segment Rental Properties</b>	<b>\$ 1,289,959</b>	<b>\$ 38,436</b>	<b>\$ 1,328,395</b>
<b>Capital Expenditures</b>			
Investment in rental properties	\$ (7,388)	\$ (445)	\$ (7,833)
Acquisition of rental properties	(275,024)	-	(275,024)
Deferred leasing costs	(11,824)	(603)	(12,427)
<b>Total Capital Expenditures</b>	<b>\$ (294,236)</b>	<b>\$ (1,048)</b>	<b>\$ (295,284)</b>

For the Year Ended December 31, 2004	Canada	U.S.	Segment Total
<b>Operations</b>			
Revenues	\$ 185,514	\$ 9,819	\$ 195,333
Operating expenses	(83,816)	(5,364)	(89,180)
Net operating income	101,698	4,455	106,153
Depreciation of rental properties	(24,661)	(1,702)	(26,363)
Amortization of deferred leasing costs and intangibles	(12,548)	(286)	(12,834)
<b>Segment Income</b>	<b>\$ 64,489</b>	<b>\$ 2,467</b>	<b>\$ 66,956</b>
<b>Segment Rental Properties</b>	<b>\$ 1,006,573</b>	<b>\$ 52,671</b>	<b>\$ 1,059,244</b>
<b>Capital Expenditures</b>			
Investment in rental properties	\$ (5,542)	\$ (1,521)	\$ (7,063)
Acquisition of rental properties	(154,225)	-	(154,225)
Deferred leasing costs	(14,007)	(340)	(14,347)
<b>Total Capital Expenditures</b>	<b>\$ (173,774)</b>	<b>\$ (1,861)</b>	<b>\$ (175,635)</b>

## 19. RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

From time to time Dundee REIT and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms. Dundee REIT, DPLP, DMLP and DRC are parties to a property management agreement and an administrative services agreement (the "Management Agreement" and the "Services Agreement"). DMLP and DRC are parties to an administrative services agreement (the "DRC Services Agreement").

### Master Property Management Agreement

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

This Management Agreement also provides that DRC will pay a rent supplement to DPLP for a five-year period ending June 30, 2008 in the case of certain specified office and retail premises and a three-year period ending June 30, 2006 in the case of certain specified industrial premises. DRC will pay an amount equal to the difference between: (i) the amount that is the total net rent less amortized leasing costs with respect to the specified premises plus the additional rents that would be payable with respect to such

premises if such premises were leased pursuant to the applicable standard lease for each premises; and (ii) the amount that is the actual base rent and additional rent received by DPLP for such premises, after deduction for amortization of leasing costs including, but not limited to, tenant inducements, landlord's work, free rent and leasing commissions paid by DPLP to lease any such premises.

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

### Administrative Services Agreement

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

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

<i>For the Year Ended December 31</i>	<b>2005</b>	<b>2004</b>
<b>Fees Received</b>		
Rent supplement received by Dundee REIT under the Management Agreement (included in rental properties' revenue)	<b>\$ 2,272</b>	\$ 3,393
Fees and rental income received by Dundee REIT under the DRC Services Agreement (included as a reduction of operating expenses)	<b>534</b>	622
<b>Fees Paid</b>		
Fees paid by Dundee REIT under the Management Agreement		
Management fees, included in rental properties' operating expenses	<b>\$ 3,634</b>	\$ 3,143
Construction fees, capitalized to the related assets	<b>485</b>	410
Lease administration fees, included in deferred leasing costs	<b>839</b>	888
Fees paid by Dundee REIT under the Services Agreement		
Acquisition and financing fees, capitalized to the related assets	<b>588</b>	498

Included in amounts receivable at December 31, 2005 is \$215 related to the Management and Services Agreements and the DRC Services Agreement (December 31, 2004 – \$117). Included in accrued liabilities and other payables at December 31, 2005 is \$251 related to the Management and Services Agreements (December 31, 2004 – \$221). Substantially all of Dundee REIT's services are to be provided by DMLP, and accordingly, Dundee REIT relies on DMLP to continue to provide such services.

## 20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

For certain of the Trust's financial instruments, including cash and short-term deposits, amounts receivable, vendor loan, amounts payable and accrued liabilities, and distributions payable, carrying amounts approximate fair values due to their immediate or short-term maturity. The fair values of the mezzanine loan, mortgages and term debt are determined by discounting the future contractual cash flows under current financing arrangements at discount rates that represent management's best estimate of borrowing rates presently available to the Trust for loans with similar terms and maturities. Specific fair values are disclosed in the related notes. The fair value of convertible debentures is based on the market value of the debentures on December 30, 2005.

The Trust has some exposure to interest rate risk primarily as a result of its variable rate debt. Variable rate debt at December 31, 2005 was 1.6% of the Trust's total debt (December 31, 2004 – 3.89%). In order to manage exposure to interest rate risk, the Trust endeavours to maintain an appropriate mix of fixed and floating rate debt, stagger maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

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

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

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

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

## 21. HELD FOR SALE AND DISCONTINUED OPERATIONS

The operating results of the following properties have been reclassified as discontinued operations to comply with the disclosure requirements of the CICA Handbook Section 3475.

- On June 30, 2004, the Trust disposed of 6500 Kitimat Road in Mississauga, Ontario for net proceeds after selling costs of \$4,941. The purchaser assumed \$1,905 of existing debt. A gain of \$2,397 was recognized on the sale.
- On July 22, 2004, the Trust disposed of its 20% interest in 2000 rue Halpern, a single tenant industrial building in Montréal, for \$3,283. The proceeds were used to retire \$2,530 of debt and a gain of \$453 was recognized on the sale.
- On December 13, 2004, the Trust disposed of Northgate Mall in Regina, Saskatchewan for net proceeds of \$43,985. The proceeds were used to retire \$34,723 of debt. A loss of \$19,431 was recognized on the sale.
- 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. The Trust received its share of the net proceeds after selling costs of \$2,325, which were used to retire outstanding debt of \$2,075. A gain of \$217 was recognized on the sale.
- Effective November 15, 2005, the Trust completed the sale of Simcoe Town Centre, a 128,000 square foot retail property, for net proceeds of \$5,864, which were used to retire outstanding debt of \$5,417. A loss of \$3,837 was recognized on the sale.

For the Year Ended December 31

	2005	2004
<b>Revenues</b>		
Rental properties revenue	\$ 1,323	\$ 9,850
Interest and fee income	1	95
	<b>1,324</b>	9,945
<b>Expenses</b>		
Rental properties operating expenses	533	4,880
Interest	251	2,347
Depreciation of rental properties	168	1,028
Amortization of deferred leasing costs	342	614
	<b>1,294</b>	8,869
Income before the undernoted item	30	1,076
Loss on sale of rental properties, net	<b>(3,620)</b>	(16,581)
Loss from discontinued operations before non-controlling interest	<b>(3,590)</b>	(15,505)
Loss attributable to non-controlling interest	1,099	4,818
<b>Loss from discontinued operations</b>	<b>\$ (2,491)</b>	<b>\$ (10,687)</b>

## 22. COMMITMENTS AND CONTINGENCIES

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

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

	<i>Operating Lease Payments</i>	<i>Capital Lease Payments</i>	<i>Ground Lease Payments</i>
Year ending December 31, 2006	\$ 761	\$ 169	\$ 1,142
2007	753	64	1,112
2008	607	58	1,112
2009	327	–	1,113
2010	322	–	572
2011 and thereafter	989	–	65
<b>Total</b>	<b>\$ 3,759</b>	<b>\$ 291</b>	<b>\$ 5,116</b>

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, and as such, no dollar amounts are shown in the table above.

### Purchase and Other Obligations

Through the 2004 acquisition of the 13-building portfolio in Montréal, the Trust acquired leases relating to three buildings in the portfolio that allow the tenants, subject to various conditions, to purchase the building they occupy from the Trust. Proceeds from these sales will be at amounts that approximate fair market value. In addition, through acquisitions completed in 2004 and 2005, the Trust has acquired leases that provide, in certain circumstances, for some tenants to require the Trust to expand their existing premises through building construction on certain existing and certain adjacent lands. The terms of these leases include various provisions including renewal obligations on the tenants' existing premises and agreement on the terms of the new space. Furthermore, certain of these leases include provisions that would allow the Trust to charge rates to recover a reasonable return on the Trust's investment. The Trust has negotiated purchase options with the owner of the adjacent lands to allow these obligations to be met.

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

The Trust has entered into lease agreements that require the payment of tenant inducements of \$1,255. The amounts are expected to be paid in the first quarter of 2006.

The Trust entered into a lease agreement that requires the Trust to construct a rental property to be leased. The Trust is required to complete the construction by May 1, 2006. As at December 31, 2005, \$1,585 has been incurred.

The Trust has entered into conditional contracts to acquire a further \$158,188 of rental properties.

## 23. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the Year Ended December 31</i>	<b>2005</b>	<b>2004</b>
Decrease in accounts receivable	<b>\$ 306</b>	\$ 2,055
Decrease in deferred costs (other than leasing costs)	<b>560</b>	1,236
Increase in prepaid expenses and other assets (excluding restricted cash and mezzanine loan)	<b>(1,723)</b>	(428)
Increase in accounts payable and accrued liabilities (excluding leasing costs)	<b>5,867</b>	14
Increase (decrease) in accounts payable relating to leasing costs	<b>(144)</b>	2,579
Change in non-cash working capital	<b>\$ 4,866</b>	\$ 5,456

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

<i>For the Year Ended December 31</i>	<i>2005</i>	<i>2004</i>
Interest	<b>\$ 52,446</b>	\$ 43,353
Income and large corporations taxes	<b>\$ 186</b>	\$ 156

#### 24. PROVISION FOR IMPAIRMENT IN VALUE OF RENTAL PROPERTY

On December 21, 2005, the Trust entered into a commitment to sell a 50% interest in a retail rental property located in the U.S. The carrying amount of the 50% interest exceeds the expected proceeds from the sale, the difference of which was recognized as an impairment loss by reducing the carrying amount of the rental property. Given that the Trust will retain a significant continuing involvement and interest in the property after the sale of the 50% interest, it has not been classified as held for sale or as a discontinued operation. The Trust expects to close the sale during the first quarter in 2006.

#### 25. SUBSEQUENT EVENTS

Effective January 10, 2006, the Trust completed the purchase of 1919 84th Avenue in Edmonton, Alberta for a purchase price of \$2,730. The property consists of a 48,000 square foot single tenant industrial building.

Effective January 11, 2006, the Trust completed the purchase of 70 Disco Road in Toronto, Ontario for a purchase price of \$7,598. The property consists of a 99,000 square foot multi-tenant industrial building.

Effective January 27, 2006, the Trust completed the purchase of a portfolio of properties in Québec for a purchase price of \$21,063. The portfolio consists of 12 office and industrial buildings totalling 265,000 square feet.