

Third



2005

Dundee REIT

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Never overlook the little things that lead to success.

It's a simple approach, and it's how Dundee REIT has become one of the industry's leading income trusts. By managing our business effectively every day. Paying attention to the small details that contribute to the big picture. And remaining focused on our commitment to provide sustainable distributions for our investors.

For some time now, we have been speaking about all of the improvements that are being made to our business. We are very pleased that these improvements are now being substantiated by our financial results. Our occupancy rate is at an all-time high, our capital is fully deployed, acquisitions are producing the anticipated results, there is growth in our comparative property portfolio, and we have achieved record funds from operations – up 8% over the second quarter.

Occupancy rates in Canada are generally increasing and the operating environment is getting better. Our properties remain well leased with the third quarter marking the seventh consecutive quarterly increase in our occupancy rate to 96% – an all-time high for Dundee REIT. Occupancy in our office portfolio is 95% and in our industrial portfolio is 97%. To put this into context, national industry averages for office and industrial occupancies in the third quarter were 90% and 95%, respectively. Rental rates have also begun to improve in some markets, offering the potential to capture growth in rents over the next couple of years. Generally speaking, we feel that there is continued upside in office properties as there is still not a great deal of new development taking place, meaning that the risk of overbuilding remains low. However, we are somewhat concerned about the impact of the strengthening Canadian dollar on the demand for industrial space as well as the new construction that is taking place. But, at the end of the day, having a diversified portfolio helps to mitigate this type of risk.

Sourcing and closing acquisitions remained a priority in the third quarter – adding another \$58 million of high quality properties to our ever-improving portfolio. Total acquisitions for the nine-month period are \$279 million and contributed \$8.6 million and \$14.5 million to revenue for the respective three and nine-month periods. Subsequent to quarter-end, we have entered into contracts for an additional \$148 million comprising approximately 1.5 million square feet. Our acquisition focus remains on individual office and industrial properties in our existing locations; however, due to an increasingly competitive acquisition market, we have begun to look in new markets. The third quarter marked our entrance into Atlantic Canada with the acquisition of Scotia Centre in St. John's, Newfoundland. This is the best building in this market and we are pleased to have it in our portfolio.

Total net operating income, including the impact of acquisitions, increased by \$2.9 million or 10% over the second quarter. We are also encouraged by an increase in net operating income on a same-property basis. Funds from operations are up \$1.2 million or 8% over the second quarter, primarily reflecting the impact of acquisitions. Refinancing activity during the quarter reduced our average interest rate to 6.17%, down 45 basis points since year-end and 103 basis points since June 30, 2003. We have also increased the average term to maturity of our debt to 5.8 years from 5.4 years at year-end and 3.9 years at June 30, 2003.

The income trust sector has suffered recently in the stock market with the TSX/S&P Capped Income Trust Index declining by 9% over the last two months. During the same time, our price has declined by 5% and the Capped REIT Index has declined by 6%. One explanation for this is the announcement made by the federal government of a pending review of the income trust sector and what they perceive to be leakage in the collection of income tax from the earnings of trusts. This decision was prompted not so much by what is happening with real estate investment trusts but rather by the spate of businesses converting to the trust structure. I don't believe that existing REITs will be affected by any potential changes currently being discussed; however, the capital markets dislike uncertainty and this has translated into downward pressure on prices across the sector. There is also some concern around rising interest rates and the negative effect that could have on operating results and underlying values.

We have made significant strides in improving all aspects of Dundee REIT's business, as substantiated by our third quarter results. We believe that the current uncertainty in our industry is temporary and that the improvements to our business are long term. Our exposure to rising interest rates is mitigated by our long-term debt structure and, with promising leasing markets across Canada, we expect our business to continue to produce good returns for our unitholders.



Michael J. Cooper  
President and  
Chief Executive Officer

# Management's Discussion and Analysis

This Management's Discussion and Analysis has been dated as at November 3, 2005. All dollar amounts in our tables are presented in thousands with the exception of unit and per unit amounts.

*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, 2004 and the nine months ended September 30, 2005. Certain information contains or incorporates comments that constitute forward-looking statements. Reliance should not be placed on forward-looking statements because they involve risks and uncertainties, which may cause actual performance and results to differ materially from the performance implied in such forward-looking statements. Dundee REIT has identified certain factors that may cause the actual results to be materially different from those expressed or implied by such forward-looking statements. Such factors 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 fluctuations.*

*These forward-looking statements are made as of November 3, 2005, and Dundee REIT assumes no obligation to update or revise them to reflect new events or circumstances.*

## Our Objectives

We are committed to:

- Providing predictable and sustainable cash distributions to unitholders;
- Prudently increasing distributions as the performance of our underlying business warrants; and
- Improving the overall value of our enterprise through effective management of our business and through acquisitions.

### 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 enroll in the DRIP receive a bonus distribution of 4% with each reinvestment. At September 30, 2005, approximately 45% of our total units were enrolled in the DRIP, including 19% of REIT Units, Series A and 100% of LP Class B Units, Series 1 (please see a description of our equity on page 5).

	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	\$ 26.25	\$ 26.60	\$ 25.56	\$ 25.35	\$ 26.40	\$ 26.74	\$ 28.05	\$ 26.76	\$ 26.49

## 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

## Our Assets

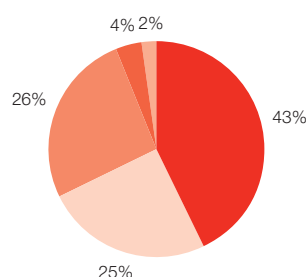
We provide high quality, affordable business premises with a focus on mid-sized urban and suburban office, industrial and flex-space properties. The majority of our assets are concentrated in our target markets: Montréal, Ottawa, Toronto, Calgary and Edmonton. These markets are attractive to us as they represent most of Canada's largest metropolitan areas, they have relatively diverse and sound economies and good real estate liquidity. Acquisition activity will generally be concentrated in these areas, as it enables us to take advantage of our established presence and management expertise in these markets, build upon our current critical mass and allows us to achieve even greater operational efficiencies.

We believe that diversifying our portfolio, balancing by asset type, geographic location and tenant mix, decreases our overall risk profile. Industrial properties generally have lower rental rates and lower operating costs than office properties and, as a result, are attractive as they offer greater stability and less downside during times of increased vacancy. Office properties, although more expensive to carry than industrial properties during weak markets, are attractive as they generate more revenue and offer greater potential for capital appreciation. Having both asset types in our portfolio helps us to realize our objective of providing predictable and sustainable distributions to our unitholders.

Given the conditions of the current market for acquisitions, we have begun to look beyond our target markets for accretive investments that also complement our existing portfolio. During the quarter, a number of acquisitions were completed in three of our target markets – Montréal, Toronto and Edmonton – and we also acquired a Class A office building in St. John's, Newfoundland. These acquisitions encompass approximately 0.4 million square feet of high quality, well-leased space with long-term commitments. Acquisitions completed year-to-date have added \$279.1 million of net assets to the portfolio.

The net book value of segmented rental properties is diversified geographically and by asset type.

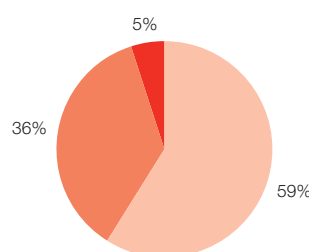
(\$000's)	September 30, 2005					December 31, 2004	
	Office	Industrial	Retail	Total	%	Total	%
Québec	\$ 169,173	\$ 145,432	\$ –	\$ 314,605	25	\$ 202,935	19
Ontario	382,562	159,402	8,481	550,445	43	476,688	45
Western Canada	179,843	153,086	4,835	337,764	26	324,937	31
Other	29,239	–	–	29,239	2	–	–
Total Canada	760,817	457,920	13,316	1,232,053	96	1,004,560	95
United States	–	–	50,115	50,115	4	52,671	5
<b>Total at September 30, 2005</b>	<b>\$ 760,817</b>	<b>\$ 457,920</b>	<b>\$ 63,431</b>	<b>\$ 1,282,168</b>	<b>100</b>	<b>\$ 1,057,231</b>	<b>100</b>
Percentage	59%	36%	5%	100%			
<b>Total at December 31, 2004</b>	\$ 597,970	\$ 393,075	\$ 66,186	\$ 1,057,231			
Percentage	57%	37%	6%	100%			



Geographic Distribution of Rental Properties by Net Book Value

(at September 30, 2005)

- Ontario
- Québec
- Western Canada
- United States
- Other



Portfolio Asset Type by Net Book Value

(at September 30, 2005)

- Office
- Industrial
- Retail

(\$000's)	September 30, 2005					December 31, 2004	
	Office <sup>(1)</sup>	Industrial	Retail <sup>(2)</sup>	Total	%	Total	%
Québec	1,578,576	3,367,023	–	4,945,599	32	3,789,504	29
Ontario	3,178,816	2,525,845	128,367	5,833,028	38	4,951,569	38
Western Canada	1,130,553	2,560,501	46,143	3,737,197	24	3,612,785	27
Other	190,184	–	–	190,184	1	–	–
Total Canada	6,078,129	8,453,369	174,510	14,706,008	95	12,353,858	94
United States	–	–	795,390	795,390	5	795,390	6
<b>Total at September 30, 2005</b>	<b>6,078,129</b>	<b>8,453,369</b>	<b>969,900</b>	<b>15,501,398</b>	<b>100</b>	<b>13,149,248</b>	<b>100</b>
Percentage	39%	55%	6%	100%			
<b>Total at December 31, 2004</b>	4,713,790	7,465,561	969,897	13,149,248			
Percentage	36%	57%	7%	100%			

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

(2) On October 3, 2005 an agreement was reached to sell Simcoe Town Centre

### **Office Rental Properties**

Dundee REIT owns 68 office properties (87 buildings) comprising approximately 6.1 million square feet located in Toronto, Ottawa, Montréal, Calgary, Edmonton, Vancouver and St. John's. Our office properties can generally be categorized as high quality yet affordable downtown and suburban buildings. Acquisitions completed in 2005 have added 1.4 million square feet of office properties to our portfolio. These properties are generally located in our key target markets, are of extremely high quality and have low maintenance capital expenditure requirements.

The Canadian national office market continued on a positive trend with occupancy levels rising for the eighth consecutive quarter. The occupancy rate in our office portfolio has increased to 95.0% from 93.6% at December 31, 2004, ahead of the national industry average of 89.6% (CB Richard Ellis, Canadian Office Market View, 3rd Quarter 2005). 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 122 prime suburban industrial and flex-space properties (139 buildings) comprising approximately 8.5 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 2005 have added 1.0 million square feet of fully occupied high quality industrial properties to our portfolio.

At September 30, 2005, the average occupancy rate across our industrial portfolio increased to 97.2% from 95.2% at December 31, 2004, also ahead of the national industry average of 94.9% (CB Richard Ellis, Canadian Industrial Market View, 3rd Quarter 2005).

### **Retail Rental Properties**

Our retail assets total approximately 1.0 million square feet. As of September 30, 2005, the portfolio had an occupancy rate of 93.0% compared to 93.3% at December 31, 2004. The remaining retail assets include Greenbriar Mall, a 795,000 square foot regional mall in Atlanta, and two smaller centres in Ontario and Alberta. Effective October 3, 2005, an agreement was reached to sell Simcoe Town Centre in Norfolk, Ontario. The sale is scheduled to close November 15, 2005. Greenbriar Mall has also been listed for sale with a U.S.-based realtor. We are currently in the process of reviewing bids but the ultimate sale of this asset will depend on the economics of final offers to purchase.

## **Our Background**

Dundee REIT was formed in connection with the reorganization (the "Reorganization") of the business of Dundee Realty Corporation ("Dundee Realty" or "DRC") on June 30, 2003. Following the Reorganization, the majority of Dundee Realty's commercial real estate division, including senior management, and a joint interest in its property management business, were transferred to Dundee REIT.

Our discussion and analysis of the financial position and results of operations of Dundee REIT is based on the consolidated financial statements of Dundee REIT for the three and nine months ended September 30, 2005 and September 30, 2004. This discussion should be read in conjunction with those financial statements.

### **Equity**

The Declaration of Trust authorizes the issuance of an unlimited number of two classes of units: REIT Units (Series A and Series B) and Special REIT Units. The Special REIT Units are only issued to holders of LP Class B Units, Series 1, are not transferable separately from these units, and are used to provide voting rights with respect to Dundee REIT to persons holding LP Class B Units, Series 1. The LP Class B Units, Series 1 are held by a related party of Dundee REIT. In accordance with Emerging Issues Committee Abstract of Issues Discussed No.151, Exchangeable Securities Issued by Subsidiaries of Income Trusts ("EIC-151"), the LP Class B Units, Series 1 have been classified as non-controlling interest in our consolidated balance sheet. However, the LP B Class B Units, Series 1 have substantially the same rights as the REIT Units and are considered equity by management for the purpose of this discussion and analysis. The LP B Units, Series 1 are generally exchangeable on a one-for-one basis for REIT Units, Series A at the option of the holder.

## Numbers that Are a Big Deal to Us

### 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 maintenance
- Building improvements
- Tenant inducements

#### Financing:

- Average interest rate
- Level of debt (debt-to-gross book value)
- Debt maturity profile/average term to maturity

### Performance Indicators

Performance as measured by these and other key indicators:

(\$000's except rental rates, unit and per unit amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
<b>Operating Results</b>				
Revenues	\$ 58,030	\$ 47,983	\$ 162,201	\$ 137,082
Net operating income <sup>(1)</sup> ("NOI")	32,465	26,984	89,134	75,606
Funds from operations <sup>(2)</sup> ("FFO")	17,181	15,566	48,491	44,939
Occupancy rate (period end)	96.1%	94.3%		
In-place rent per square foot	\$ 9.26	\$ 9.17		
Weighted average interest rate (period end)	6.17%	6.65%		
Interest expense	14,449	11,739	39,468	31,604
Interest coverage ratio <sup>(6)</sup>	2.18 times	2.25 times	2.21 times	2.34 times
Debt-to-gross book value	61.7%	55.8%		
<b>Distributions</b>				
FFO payout ratio <sup>(4)</sup>	81.3%	86.2%	85.4%	86.9%
Distributable income <sup>(3)</sup>	15,990	13,966	43,883	40,138
Reinvested distributions <sup>(5)</sup>	6,447	5,119	17,842	15,452
Reinvestment to distribution ratio <sup>(4) (5)</sup>	46.2%	38.1%	43.1%	39.6%
Cash distribution ratio	53.8%	61.9%	56.9%	60.4%
<b>Per unit amounts</b>				
<b>Basic:</b>				
FFO	\$ 0.68	\$ 0.64	\$ 1.93	\$ 1.92
Distributable income	0.63	0.57	1.75	1.72
Distribution rate (monthly)	0.183	0.183	0.183	0.183
<b>Diluted:</b> <sup>(7)</sup>				
FFO	0.63	0.62	1.83	1.89
Distributable income	0.59	0.56	1.68	1.70
<b>Units outstanding (period end)</b>				
REIT Units, Series A	17,204,683	16,776,929		
LP Class B Units, Series 1	8,337,365	7,745,994		
<b>Total units outstanding</b>	<b>25,542,048</b>	<b>24,522,923</b>		

(1) NOI – rental property revenues less operating expenses. The reconciliation of NOI to net income can be found on page 14.

(2) FFO –The reconciliation of FFO to net income can be found on page 12.

(3) The reconciliation of distributable income to net income can be found on page 13.

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

(5) Includes October 15, 2005 reinvestment of distributions declared in September 2005.

(6) Interest coverage is calculated using total interest expense as the denominator and the numerator is calculated as net income (loss) adding back income attributable to non-controlling interest, income taxes, dilution gain, gain (loss) on disposal of rental property, depreciation, amortization and interest expense.

(7) Dilution includes 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

(\$000's)	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Cash generated from operating activities	\$ 14,198	\$ 10,605	\$ 43,263	\$ 36,967
Cash utilized in investing activities	(50,175)	(334)	(213,709)	(165,082)
Cash generated from financing activities	36,770	(12,572)	159,073	135,782
<b>Increase (decrease) in cash and cash equivalents</b>	<b>\$ 793</b>	<b>\$ (2,301)</b>	<b>\$ (11,373)</b>	<b>\$ 7,667</b>

In broad terms, Dundee REIT's primary sources of capital are cash generated from operating activities, credit facilities, mortgage financing and refinancing, and equity and debt issues. Our primary uses of capital include the payment of distributions, costs of attracting and retaining tenants, recurring property maintenance, major property improvements, debt principal repayments and property acquisitions. We expect to meet all of our ongoing obligations through current cash and cash equivalents, cash flows from operations, conventional mortgage refinancings and, as growth requires, through new equity or debt issues.

At September 30, 2005, cash and cash equivalents were \$6.0 million, down from \$17.3 million at December 31, 2004. We have an \$80.0 million credit facility, of which approximately \$56.0 million is available to provide further funding for working capital or as a bridge facility to fund acquisitions.

#### Cash Generated from Operating Activities

(\$000's)	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Net income (loss)	\$ 2,223	\$ 5,375	\$ 9,324	\$ 1,326
Non-cash items:				
Depreciation of rental properties	8,053	6,605	21,626	19,579
Amortization of deferred leasing costs and intangibles	5,765	3,764	14,067	9,161
Amortization of deferred financing costs	440	325	1,137	721
Amortization of marked-to-market adjustment on acquired debt	(426)	(315)	(1,595)	(1,123)
Provision for impairment in value of rental property	-	-	-	19,729
Gain on disposal of rental properties	-	(442)	(217)	(3,016)
Deferred unit compensation expense	240	106	587	318
Future income taxes	259	(1,946)	634	(1,988)
Amortization of market rent adjustments on acquired leases	(109)	(83)	(250)	(75)
Straight-line rent adjustment	(904)	(1,140)	(2,849)	(3,375)
Dilution gain	(269)	(365)	(1,594)	(1,183)
Non-controlling interest	986	2,292	3,804	311
	16,258	14,176	44,674	40,385
Deferred leasing costs incurred	(2,366)	(6,315)	(7,703)	(10,980)
Change in non-cash working capital	306	2,744	6,292	7,562
<b>Cash generated from operating activities</b>	<b>\$ 14,198</b>	<b>\$ 10,605</b>	<b>\$ 43,263</b>	<b>\$ 36,967</b>

Cash generated from operations during the three months ended September 30, 2005 increased 34% over the comparative period primarily due to the contribution from acquisitions and a reduction in leasing costs. Year-to-date results also reflect the impact of acquisitions and lower leasing costs. The \$2.4 million decrease in non-cash working capital in the quarter is mainly a result of a decrease in accounts payable related to leasing costs.

As part of operating expenses, there are certain property repair and maintenance costs that are recoverable from tenants. These costs are recovered in the year of expenditure or, in the case of a major expenditure, are deferred and amortized to recoverable expense over a period of years. At September 30, 2005, the deferred amount remaining for recovery in future periods was \$7.3 million (December 31, 2004 – \$8.1 million).

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

<b>Performance Indicators</b>	September 30, 2005	December 31, 2004
<b>Operating Activities</b>		
Occupancy level <sup>(1)</sup>	<b>96.1%</b> <sup>(2)</sup>	94.5%
Tenant maturity profile – average term to maturity (years)		
Office	<b>4.6 years</b>	5.2 years
Industrial	<b>4.3 years</b>	3.5 years
In-place rental rates (office and industrial average)	<b>\$ 9.29</b>	\$ 9.06
Operating costs as a percentage of gross revenue	<b>45.0%</b>	45.6%

(1) Includes occupied and committed space

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

Our tenant maturity profile has remained consistent over a long period of time. The decrease in the average term to maturity in the office portfolio reflects the impact of month-to-month tenancies as well as the time elapsed since year-end, partially offset by new leasing activity and the impact of acquisitions. The industrial portfolio generally attracts tenants for shorter lease terms; however, year-to-date leasing activity, combined with the longer lease terms of acquired properties, has lengthened the term to maturity compared to year-end.

Our current average in-place office and industrial rental rates are both approximately 15% higher than our current expiring rental rates. Although this is a positive indicator, the marketplace remains competitive and in-place rent will vary with location and incentive packages, including free rent and market conditions. We do anticipate continued pressure on rents as some leases are expiring at rates that are close to or over current market rates. One office property acquired during the quarter had in-place rents significantly below both market rates and the average rate within our portfolio. The rates for industrial properties acquired during the quarter were significantly higher than our existing portfolio, reflecting the high quality of the flex-industrial space in Montréal and the industrial space in the greater Toronto area. The increase in average in-place rental rates reflects both leasing activity and a small increase from the acquisitions.

### Leasing

Occupancy levels and rental rates are discussed under our results of operations beginning on page 20. Leasing costs for the nine months decreased 30% to \$7.7 million (September 30, 2004 – \$11.0 million). The amount of inducements will vary across the portfolio and from year to year depending on the maturity and termination of leases, existing vacancies, market requirements and the nature and mix of the leasing activity. For example, short-term leases generally have lower costs than long-term leases, and leasing costs associated with office space are generally higher than costs associated with industrial space. There are two major types of spending associated with leasing: expenditures to improve the space, and money 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.

<b>Performance Indicators</b>	Office <sup>(1)</sup>	Industrial	Retail	Total
<b>Operating Activities</b>				
Portfolio size (sq. ft.)	6,078,129	8,453,369	969,900	15,501,398
Occupied and committed	95.0%	97.2%	93.0%	96.1%
Square footage leased and occupied in the nine months ended September 30, 2005	490,105	1,417,233	94,835	2,002,173
Leasing costs (\$'000's)	\$ 4,015	\$ 3,169	\$ 519	\$ 7,703
Leasing costs (per sq. ft.)	\$ 8.19	\$ 2.24	\$ 5.47	\$ 3.85

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

Our estimates of normalized leasing activity and leasing costs at the beginning of the year were as follows:

	Office	Industrial
Average leasing activity (sq. ft.)	500,000	1,350,000
Average leasing costs (per sq. ft.)	\$ 11.50	\$ 2.50
Expected average annual leasing cost (\$'000's)	\$ 5,700	\$ 3,400

As you can see, on a year-to-date basis our leasing costs per square foot are lower than our estimate while our leasing activity levels have increased significantly and occupancy has risen. However, we anticipate that costs relating to industrial properties may increase in the fourth quarter resulting from leasing activity in some of our flex-space properties at rates approximating those typically incurred for office properties.

*Cash Utilized in Investing Activities*

(\$000's)	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Investment in rental properties	\$ (1,719)	\$ (1,100)	\$ (4,124)	\$ (5,751)
Acquisition of rental properties	(50,092)	(60)	(220,503)	(153,990)
Acquisition deposit on rental properties	500	–	(175)	–
Investment in mezzanine loan	–	–	(750)	(10,476)
Net proceeds from disposal of rental properties	–	742	2,254	5,772
Change in restricted cash, net	1,136	84	9,589	(637)
<b>Cash utilized in investing activities</b>	<b>\$ (50,175)</b>	<b>\$ (334)</b>	<b>\$ (213,709)</b>	<b>\$ (165,082)</b>

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

Performance Indicators (\$000's)	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
<b>Investing Activities</b>				
Acquisition of rental properties	\$ 57,863	\$ –	\$ 279,101	\$ 272,693
Building improvements	\$ 1,648	\$ 1,384	\$ 3,974	\$ 5,126

During the quarter, we acquired \$57.9 million of rental properties and related intangible assets and assumed \$7.6 million of mortgages. A summary of these acquisitions is provided on page 22. We have assumed a total of \$58.1 million in mortgages and other liabilities for certain acquisitions completed year-to-date. Acquisitions have increased net operating income by approximately \$5.1 million and \$14.1 million for the three and nine month periods, respectively. As of November 3, 2005, we have entered into contracts to acquire an additional \$110.7 million of rental properties of which we have effectively waived conditions on \$37.4 million.

*Building Improvements*

(\$000's)	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Building improvements:				
Recurring recoverable	\$ 328	\$ 43	\$ 836	\$ 58
Recurring non-recoverable	772	94	822	869
Non-recurring	548	1,247	2,316	4,199
<b>Total</b>	<b>\$ 1,648</b>	<b>\$ 1,384</b>	<b>\$ 3,974</b>	<b>\$ 5,126</b>

For the three month period, capital expenditures for rental property building improvements and equipment were \$1.6 million (September 30, 2004 – \$1.4 million) on an accrual basis. Recurring recoverable costs of \$0.3 million were incurred in the quarter for various roof repairs. Recurring non-recoverable costs of \$0.8 million includes a roof replacement and an air-conditioning unit replacement, neither of which were recoverable under the terms of the respective leases. Non-recurring costs in the quarter included \$0.2 million for capitalizing the carrying costs of a property under re-development.

As part of our acquisition due diligence, we endeavour to identify any near-term capital expenditure requirements and factor those costs into our investment analysis and purchase price negotiations. Such potential expenditures are approved in the acquisition process and will be identified as incurred. Anticipated non-recoverable capital expenditure costs within the next two years associated with current acquisitions are less than \$0.5 million.

*Mezzanine Loan*

Our mezzanine loan investment remains at \$11.2 million plus accrued interest of \$1.1 million. This loan is to assist in the development and leasing of 345,000 square feet of flex properties adjacent to existing properties in Mississauga, Ontario. Our current intention is to exercise our option to acquire these properties once they meet the 85% occupancy requirement. To date, construction of 130,000 square feet has been completed and 215,000 square feet are currently under development. Leasing is progressing well and the average committed occupancy is approximately 54%.

*Cash Generated from Financing Activities*

(\$000's)	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Mortgages placed	\$ 69,750	\$ –	\$ 126,800	\$ 71,912
Mortgage principal repayments	(4,607)	(3,658)	(12,753)	(11,286)
Mortgage lump sum repayments	–	–	(39,698)	(49,802)
Term debt placed	–	–	–	60,553
Term debt principal repayments	(141)	(202)	(380)	(679)
Term debt lump sum repayments	–	(517)	(2,075)	(79,994)
Convertible debentures issued, net of costs	(216)	–	95,452	71,432
Demand revolving credit facility, net	(20,662)	–	21,577	(7,026)
Demand non-revolving credit facility	–	–	(6,107)	–
Distributions paid on REIT Units, Series A	(7,400)	(8,242)	(23,791)	(22,710)
Units issued, net of costs	46	47	48	103,382
<b>Cash generated from (utilized in) financing activities</b>	<b>\$ 36,770</b>	<b>\$ (12,572)</b>	<b>\$ 159,073</b>	<b>\$ 135,782</b>

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

	September 30, 2005	December 31, 2004
<b>Financing Activities</b>		
Average interest rate	6.17%	6.62%
Level of debt (debt-to-gross book value)	61.7%	55.2%
Proportion of total debt due in 2005	3.6%	4.7%
Debt – average term to maturity (years)	5.8	5.4
Variable rate debt as percentage of total debt	4.5%	3.9%

Our debt strategy includes fixing the rates on our debt and extending loan terms as long as possible to protect against interest rate volatility. As a result of accessing our line of credit to fund acquisitions, our variable interest rate debt as a percentage of total debt has increased compared to year-end but has decreased compared to the prior quarter as a result of applying the proceeds of mortgage financing against our line of credit. Mortgage financing completed in the quarter has also decreased our average interest rate and increased the average term to maturity of our debt compared to June 30, 2005.

(\$000's)	September 30, 2005			December 31, 2004		
	Fixed	Variable	Total	Fixed	Variable	Total
Mortgages	\$ 722,465	\$ –	\$ 722,465	\$ 591,304	\$ –	\$ 591,304
Term debt	310	20,560	20,870	432	21,005	21,437
Convertible debenture – 6.5%	72,464	–	72,464	74,430	–	74,430
Convertible debenture – 5.7%	98,860	–	98,860	–	–	–
Demand revolving credit facility	–	21,577	21,577	–	–	–
Demand non-revolving credit facility	–	–	–	–	5,984	5,984
<b>Total</b>	<b>\$ 894,099</b>	<b>\$ 42,137</b>	<b>\$ 936,236</b>	<b>\$ 666,166</b>	<b>\$ 26,989</b>	<b>\$ 693,155</b>
Percentage	95.5%	4.5%	100%	96.1%	3.9%	100%

Mortgages payable include an \$8.2 million marked-to-market adjustment (December 31, 2004 – \$7.2 million) to reflect the fair value of various mortgages at the time the related properties were acquired. Amounts recorded for the 6.5% and 5.7% Debentures exclude the premiums allocated to their conversion features of \$0.6 million and \$1.2 million, respectively. The marked-to-market adjustment and discount are amortized to interest expense over the term to maturity of the related debt.

(\$000's)	September 30, 2005	December 31, 2004
Total assets	<b>\$ 1,440,634</b>	\$ 1,199,792
Accumulated depreciation	<b>79,431</b>	60,463
Discontinued operations	–	(2,384)
<b>Gross book value</b>	<b>\$ 1,520,065</b>	\$ 1,257,871
Outstanding debt	<b>\$ 936,236</b>	\$ 693,155
Unamortized equity component of convertible debentures	<b>1,651</b>	570
<b>Total debt</b>	<b>\$ 937,887</b>	\$ 693,725
Debt-to-gross book value	<b>61.7%</b>	55.2%

Due to the high level of convertible debt in our current debt structure, we have made a conscious decision to increase our target debt range from between 55% to 60% to between 57% to 63%. At September 30, 2005, our ratio increased to 61.7% (June 30, 2005 – 60.7%) as a result of using debt to fully fund acquisitions. We consider our convertible debentures to be debt and treat them as such when computing our debt ratios. The assumed conversion of all the 6.5% and 5.7% Debentures would decrease our debt-to-gross book value to 50.6%.

### Financing Activity

We continued to take advantage of the favourable interest rate environment during the quarter and secured approximately \$69.8 million in new mortgage financing for an average term of 10 years at an average interest rate of 5.0%. A portion of the proceeds were used to fund acquisitions and the remainder to pay down the amounts drawn on the demand revolving credit facility. As a result, our overall average interest rate decreased and our average term to maturity increased. Excluding the impact of the demand revolving credit facility, our average term to maturity is 6.0 years. At September 30, 2005, we have drawn \$21.6 million from our demand revolving credit facility.

Changes in debt levels since December 31, 2004 resulting from:

(\$000's)	Mortgages	Term Debt	Demand Revolving Credit Facility <sup>(1)</sup>	Demand Non-revolving Credit Facility	Convertible Debentures	Total
Debt as at December 31, 2004	\$ 591,304	\$ 23,326 <sup>(1)</sup>	\$ –	\$ 5,984	\$ 74,430	\$ 695,044
New debt assumed on rental property acquisitions	54,840	–	–	–	–	54,840
New debt placed	126,800	–	21,577	–	100,000	248,377
Equity component of convertible debenture	–	–	–	–	(1,200)	(1,200)
Scheduled repayments	(12,753)	–	–	–	–	(12,753)
Lump sum repayments	(39,698)	(381)	–	(6,107)	–	(46,186)
Lump sum repayment on property disposition	–	(2,075)	–	–	–	(2,075)
Conversion to unit equity	–	–	–	–	(2,026)	(2,026)
Marked-to-market adjustments	939	–	–	–	120	1,059
Foreign exchange adjustment	1,033	–	–	123	–	1,156
<b>Debt as at September 30, 2005</b>	<b>\$ 722,465</b>	<b>\$ 20,870</b>	<b>\$ 21,577</b>	<b>\$ –</b>	<b>\$ 171,324</b>	<b>\$ 936,236</b>

(1) Includes discontinued operations

(2) The demand revolving credit facility matures June 19, 2006

(\$000's)	September 30, 2005				December 31, 2004
	Debt Maturities	Scheduled Principal Repayments on Non-matured Debt	Amount	%	
Remainder of 2005	\$ 27,954	\$ 5,634	<b>\$ 33,588</b>	4	\$ 32,564
2006	44,420	22,221	<b>66,641</b>	7	65,737
2007	29,878	21,184	<b>51,062</b>	5	68,533
2008	87,775	20,568	<b>108,343</b>	12	89,596
2009	113,659	16,743	<b>130,402</b>	14	112,653
2010 and thereafter	506,455	39,745	<b>546,200</b>	58	324,072
<b>Total</b>	<b>\$ 810,141</b>	<b>\$ 126,095</b>	<b>\$ 936,236</b>	<b>100</b>	<b>\$ 693,155</b>

### Convertible Debentures

During the quarter, \$2.0 million of the principal amount of 6.5% Debentures were converted for which we issued 80,640 REIT Units, Series A.

## Equity and Non-controlling Interest

	Equity		Non-Controlling Interest	Total
	REIT Units, Series A		LP Class B Units, Series 1	
Units issued and outstanding on December 31, 2004	16,819,963		7,924,084	24,744,047
Units issued pursuant to DRIP	279,185		413,281	692,466
Units issued pursuant to unit purchase plan	7,831		–	7,831
Units issued pursuant to deferred unit incentive plan	16,764		–	16,764
Conversion of 6.5% Debenture	81,040		–	81,040
Redemption of units	(100)		–	(100)
<b>Total units outstanding on September 30, 2005</b>	<b>17,204,683</b>		<b>8,337,365</b>	<b>25,542,048</b>
<b>Percentage of all units</b>	<b>67%</b>		<b>33%</b>	<b>100%</b>
Units issued pursuant to DRIP on October 15, 2005	87,495		–	87,495
Units issued pursuant to unit purchase plan	56		–	56
<b>Total units outstanding on October 15, 2005</b>	<b>17,292,234</b>		<b>8,337,365</b>	<b>25,629,599</b>
<b>Percentage of all units</b>	<b>67%</b>		<b>33%</b>	

Our Declaration of Trust authorizes the issuance of an unlimited number of two classes of units: REIT Units and Special REIT Units. The Special REIT Units may only be issued to holders of LP Class B Units, Series 1, are not transferable separately from these units, and are used to provide voting rights with respect to Dundee REIT to persons holding LP Class B Units, Series 1. The LP Class B Units, Series 1 are held by a related party of Dundee REIT. Both the REIT Units and Special REIT Units entitle the holder to one vote for each unit held at all meetings of the unitholders. The LP Class B Units, Series 1 are generally exchangeable on a one-for-one basis for REIT Units, Series B at the option of the holder, which can then be converted into REIT Units, Series A. The LP Class B Units, Series 1 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.

The LP Class B Units, Series 1 do not meet the specific conditions contained in EIC-151 (see page 26) for classification as equity and are therefore classified as non-controlling interest in our consolidated balance sheet. However, the LP Class B Units, Series 1 have substantially the same rights as the REIT Units and are considered equity for the purposes of this discussion and analysis.

## Funds from Operations

(\$'000's except per unit amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
<b>Net income (loss)</b>	<b>\$ 2,223</b>	<b>\$ 5,375</b>	<b>\$ 9,324</b>	<b>\$ 1,326</b>
Add (deduct):		<i>Restated<sup>(1)</sup></i>		<i>Restated<sup>(1)</sup></i>
Depreciation of rental properties	<b>8,053</b>	6,605	<b>21,626</b>	19,579
Amortization of deferred leasing costs and intangibles	<b>5,765</b>	3,764	<b>14,067</b>	9,161
Imputed amortization of leasing costs related to the rent supplement	<b>168</b>	286	<b>858</b>	1,028
Gain on disposal of rental properties	–	(442)	<b>(217)</b>	(3,016)
Provision for impairment in value of rental property	–	–	–	19,729
Future income tax expense (recovery)	<b>259</b>	(1,946)	<b>634</b>	(1,988)
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	<b>(4)</b>	(3)	<b>(11)</b>	(8)
Dilution gain	<b>(269)</b>	(365)	<b>(1,594)</b>	(1,183)
Non-controlling interest	<b>986</b>	2,292	<b>3,804</b>	311
<b>FFO</b>	<b>\$ 17,181</b>	<b>\$ 15,566</b>	<b>\$ 48,491</b>	<b>\$ 44,939</b>
<b>FFO per unit – basic</b>	<b>\$ 0.68</b>	<b>\$ 0.64</b>	<b>\$ 1.93</b>	<b>\$ 1.92</b>
<b>FFO per unit – diluted</b>	<b>\$ 0.63</b>	<b>\$ 0.62</b>	<b>\$ 1.83</b>	<b>\$ 1.89</b>

(1) Restated to comply with RealPac guidelines and items specific to the organization of the REIT.

The increase in FFO per unit for the quarter over the comparative period is primarily due to the impact of acquisitions. Certain one-time items recorded during the quarter, including the impact of a lease surrender payment, contributed \$0.2 million to FFO. A reduction in our weighted average interest rate also had a positive impact on FFO. Diluted FFO per unit amounts assume the conversion of the 6.5% Debentures and 5.7% Debentures. Year-to-date, the weighted-average units outstanding for basic and diluted FFO per unit calculations are 25,113,606 and 30,367,672, respectively.

Management believes that 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 Canadian Generally Accepted Accounting Principles ("GAAP") and is not necessarily indicative of cash available to fund Dundee REIT's needs. Effective January 1, 2005, the Real Property Association of Canada ("RealPac") provided better guidance on the definition of FFO to help promote more consistent disclosure. The impact of the RealPac guideline on our calculation of FFO was not significant, with the only change being the deduction of amortization of costs that are not uniquely significant to the real estate industry. These costs include software, office equipment and building improvement costs incurred after the formation of the Trust. The Trust adopted these guidelines and restated all prior comparative periods. Until such time as all income trusts adopt this policy, our computation of FFO may not be comparable with other REITs, industries or income trusts.

### Distributable Income

(\$000's except per unit amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
		<i>Restated<sup>(1)</sup></i>		<i>Restated<sup>(2)</sup></i>
<b>Net Income</b>	<b>\$ 2,223</b>	\$ 5,375	<b>\$ 9,324</b>	\$ 1,326
Add (deduct):				
Depreciation of rental properties	<b>8,053</b>	6,605	<b>21,626</b>	19,579
Amortization of deferred leasing costs and intangibles	<b>5,765</b>	3,764	<b>14,067</b>	9,161
Future income taxes	<b>259</b>	(1,946)	<b>634</b>	(1,988)
Amortization of marked-to-market adjustment on acquired debt	<b>(426)</b>	(315)	<b>(1,595)</b>	(1,123)
Compensation expense, deferred unit incentive plan	<b>240</b>	106	<b>587</b>	318
Gain on disposal of rental property	<b>–</b>	(442)	<b>(217)</b>	(3,016)
Provision for impairment in value of rental property	<b>–</b>	–	<b>–</b>	19,729
Straight-line rent	<b>(904)</b>	(1,140)	<b>(2,849)</b>	(3,375)
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	<b>(4)</b>	(3)	<b>(11)</b>	(7)
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	<b>78</b>	32	<b>85</b>	118
Amortization of deferred financing costs incurred prior to June 30, 2003	<b>98</b>	86	<b>272</b>	363
Amortization of market rent adjustments on acquired leases	<b>(109)</b>	(83)	<b>(250)</b>	(75)
Dilution gain	<b>(269)</b>	(365)	<b>(1,594)</b>	(1,183)
Non-controlling interest	<b>986</b>	2,292	<b>3,804</b>	311
<b>Distributable income</b>	<b>\$ 15,990</b>	\$ 13,966	<b>\$ 43,883</b>	\$ 40,138
<b>Distributable income per unit – basic</b>	<b>\$ 0.63</b>	\$ 0.57	<b>\$ 1.75</b>	\$ 1.72
<b>Distributable income per unit – diluted</b>	<b>\$ 0.59</b>	\$ 0.56	<b>\$ 1.68</b>	\$ 1.70

(1) Restated for comparability, previously reported as \$13,459. Restated amount deducts amortization of costs not specific to real estate operations, no longer deducts the amortization of deferred leasing costs and no longer includes imputed amortization of leasing costs related to the rent supplement.

(2) Restated for comparability, previously reported as \$39,529.

Distributable income is not a measure defined by Canadian 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.

In response to recent changes in Canadian GAAP, effective January 1, 2005, we amended our definition of distributable income to more accurately describe cash available for distribution to unitholders. The most significant change relates to the exclusion of the amortization of leasing costs, which does not impact our capacity to pay distributions in the short term. The change also incorporates the deduction of amortization of costs not specific to real estate operations as discussed under funds from operations above.

## Distributions

The distributions presented in the table below are comprised of \$28.1 million relating to REIT Units, Series A and \$14.0 million relating to LP Class B Units, Series 1. Cash distributions were only paid to holders of REIT Units, Series A as all of the LP Class B Units, Series 1 are enrolled in the DRIP.

(\$000's)	Declared Distributions	4% Additional Distributions	Total
<b>2005 Distributions</b>			
Paid in cash or reinvestment in units	\$ 36,733	\$ 629	\$ 37,362
Payable at September 30, 2005	4,675	86	4,761
<b>Total distributions</b>	<b>\$ 41,408</b>	<b>\$ 715</b>	<b>\$ 42,123</b>
<b>2005 Reinvestment</b>			
Reinvested to September 30, 2005	\$ 15,723	\$ 629	\$ 16,352
Reinvested on October 15, 2005	2,119	86	2,205
<b>Total distributions reinvested</b>	<b>\$ 17,842</b>	<b>\$ 715</b>	<b>\$ 18,557</b>
Distributions paid in cash	\$ 23,566		
Reinvestment to distribution ratio	43.1%		
Cash distribution payout ratio	56.9%		

Our distribution policy requires us to make cash distributions to our unitholders, payable monthly, equal to at least 80% of distributable income on an annual basis. Distributions declared in the nine-month period amounted to \$41.4 million or 94% of distributable income, an increase of \$2.4 million over the previous nine-month period. Of this amount, \$17.8 million or 43% was reinvested in additional units. The increase in declared distributions stems from an incremental increase in units generated through the DRIP as well as the public offering of REIT Units, Series A in February 2004. As a result of the high level of participation in the DRIP, our cash payout ratio for our distributions is 57%.

Effective 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.

## Our Results of Operations

(\$000's)	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
<b>Rental properties</b>				
Revenues	\$ 58,030	\$ 47,983	\$ 162,201	\$ 137,082
Operating expenses	25,565	20,999	73,067	61,476
<b>Net operating income</b>	<b>32,465</b>	26,984	<b>89,134</b>	75,606
<b>Other expenses</b>				
Interest	14,449	11,739	39,468	31,604
Depreciation of rental properties	8,053	6,592	21,626	18,766
Amortization of deferred leasing costs and intangibles	5,765	3,761	14,067	8,891
General and administrative	1,362	1,145	3,768	3,302
	<b>29,629</b>	23,237	<b>78,929</b>	62,563
<b>Other income</b>				
Interest and fee income, net	411	583	1,748	1,595
<b>Income before gain on disposal of rental property and dilution gain</b>	<b>3,247</b>	4,330	<b>11,953</b>	14,638
Gain on disposal of rental property	-	-	-	166
Dilution gain	269	365	1,594	1,183
<b>Income before income and large corporations taxes</b>	<b>3,516</b>	4,695	<b>13,547</b>	15,987
<b>Income taxes</b>				
Current income and large corporations taxes	44	29	132	67
Future income taxes	259	(1,946)	634	(1,988)
	<b>303</b>	(1,917)	<b>766</b>	(1,921)
<b>Income before non-controlling interest and discontinued operations</b>	<b>3,213</b>	6,612	<b>12,781</b>	17,908
<b>Income attributable to non-controlling interest</b>	<b>987</b>	1,961	<b>3,692</b>	5,367
<b>Income before discontinued operations</b>	<b>2,226</b>	4,651	<b>9,089</b>	12,541
<b>Discontinued operations</b>	<b>(3)</b>	724	<b>235</b>	(11,215)
<b>Net income</b>	<b>\$ 2,223</b>	\$ 5,375	<b>\$ 9,324</b>	\$ 1,326

### **Revenues**

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 \$10.0 million increase in revenue in the quarter over the same period in the prior year is primarily a result of acquisitions completed in 2004 and 2005. Acquisitions completed in 2005 contributed \$8.7 million and \$14.5 million to revenues for the three and nine-month periods, respectively.

### **Operating Expenses**

Operating expenses are mainly comprised of occupancy costs and property taxes as well as certain expenses that are not recoverable from tenants, the majority of which are related to leasing. Operating expenses fluctuate with occupancy levels, weather, utility costs, taxes, repairs and maintenance. The \$4.6 million and \$11.6 million increase in operating expenses for the three and nine-month periods, respectively, is mainly a result of acquisitions completed in 2004 and 2005.

### **Interest Expense**

Interest expense for the quarter increased by \$2.7 million or 23% over the comparative period. The increase was mainly driven by additional debt related to acquisitions. Interest expense for the nine-month period increased by \$7.9 million.

### **Depreciation of Rental Properties**

Depreciation increased by \$1.5 million over the respective three months in 2004 mainly as a result of acquisitions.

### **Amortization of Deferred Leasing Costs and Intangibles**

Amortization increased by \$2.0 million over the comparative period, largely due to the allocation of a portion of the purchase price on new acquisitions to intangibles.

### **General and Administrative**

General and administrative expenses are primarily comprised of the expenses related to corporate management, trustees' fees and expenses, and investor relations for the Trust and its subsidiaries. Expenses for the quarter were \$1.4 million, representing an increase of \$0.2 million over the comparative period that is mainly attributable to compensation expense recorded to account for the deferred unit and other incentive plans.

### **Interest and Fee Income**

Interest and fee income represents amounts for items such as fees earned from managing properties owned by others, 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 year-to-year.

### **Dilution Gain**

A dilution gain of \$0.3 million and \$1.6 million for the three and nine-month periods (September 30, 2004 – \$0.4 million and \$1.2 million) was recognized as a result of the application of EIC-151 (see page 26). The dilution gain stems from the issuance of LP Class B Units, Series 1 pursuant to our DRIP, resulting in a dilution of our ownership of Dundee Properties L.P.

### **Income Tax Expense**

Dundee REIT distributes or designates all taxable earnings to unitholders and as such, under current legislation, the obligation for tax rests with each unitholder and no tax provision is currently required on the majority of Dundee REIT's income. Certain Canadian and U.S. subsidiaries of Dundee REIT are taxable and any tax related costs are reflected in the income statement and balance sheet.

### **Income Attributable to Non-Controlling Interest**

Income attributable to non-controlling interests of \$1.0 million and \$3.7 million for the three and nine-month periods excludes \$nil and \$0.1 million of income, respectively, from discontinued operations. These amounts represent the income from continuing operations and discontinued operations allocated to the holders of LP Class B Units, Series 1, which comprises the non-controlling interest.

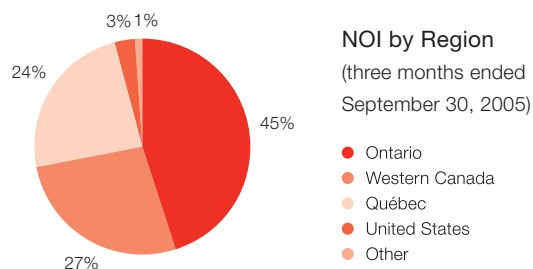
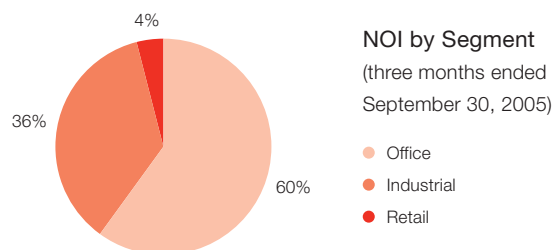
### **Discontinued Operations**

Discontinued operations includes assets that have been categorized as held for sale or sold and meet specific criteria as discontinued assets in accordance with Canadian GAAP. These assets and operations are disclosed separately on the balance sheet and income statement. We did not own any properties as at September 30, 2005 that were identified as discontinued operations. Effective October 3, 2005, we entered into a contract to sell Simcoe Town Centre, which will be classified as discontinued in subsequent quarters. The amounts included in the financial statements represent the fulfillment of obligations and realization of assets for properties that were sold in prior periods.

## Net Operating Income ("NOI")

(\$000's)	Three Months Ended September 30				Nine Months Ended September 30			
	2005	2004	Growth		2005	2004	Growth	
			Amount	%			Amount	%
Office	\$ 19,563	\$ 15,667	\$ 3,896	25	\$ 53,003	\$ 43,811	\$ 9,192	21
Industrial	11,632	9,962	1,670	17	32,247	27,437	4,810	18
Retail	1,270	1,355	(85)	(6)	3,884	4,358	(474)	(11)
NOI	32,465	26,984	5,481	20	89,134	75,606	13,528	18
Discontinued operations	(4)	1,047	(1,051)		135	3,394	(3,259)	
<b>NOI including discontinued operations</b>	<b>\$ 32,461</b>	<b>\$ 28,031</b>	<b>\$ 4,430</b>	<b>16</b>	<b>\$ 89,269</b>	<b>\$ 79,000</b>	<b>\$ 10,269</b>	<b>13</b>

(\$000's)	Three Months Ended September 30				Nine Months Ended September 30			
	2005	2004	Growth		2005	2004	Growth	
			Amount	%			Amount	%
Québec	\$ 7,606	\$ 5,976	\$ 1,630	27	\$ 19,864	\$ 14,613	\$ 5,251	36
Ontario	14,709	12,121	2,588	21	41,276	35,475	5,801	16
Western Canada	8,890	7,884	1,006	13	24,731	22,202	2,529	11
Other	303	–	303	–	303	–	303	–
Total Canada	31,508	25,981	5,527	21	86,174	72,290	13,884	19
United States	957	1,003	(46)	(5)	2,960	3,316	(356)	(11)
NOI	32,465	26,984	5,481	20	89,134	75,606	13,528	18
Discontinued operations	(4)	1,047	(1,051)		135	3,394	(3,259)	
<b>NOI including discontinued operations</b>	<b>\$ 32,461</b>	<b>\$ 28,031</b>	<b>\$ 4,430</b>	<b>16</b>	<b>\$ 89,269</b>	<b>\$ 79,000</b>	<b>\$ 10,269</b>	<b>13</b>



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 operating expenses. NOI for the quarter increased 20% over the comparative period, primarily due to acquisitions completed in 2004 and 2005.

*NOI Comparative Portfolio*

(\$000's)	Three Months Ended September 30				Nine Months Ended September 30			
	2005	2004	Growth		2005	2004	Growth	
			Amount	%			Amount	%
Office	\$ 13,324	\$ 13,035	\$ 289	2	\$ 39,156	\$ 39,280	\$ (124)	-
Industrial	6,419	5,972	447	7	18,540	17,582	958	5
Retail	1,255	1,338	(83)	(6)	3,864	4,303	(439)	(10)
Comparative properties	20,998	20,345	653	3	61,560	61,165	395	1
Acquisitions	10,959	5,806	5,153		25,739	11,687	14,052	
Rent supplement	486	814	(328)		1,813	2,690	(877)	
Dispositions	22	19	3		22	64	(42)	
NOI	32,465	26,984	5,481	20	89,134	75,606	13,528	18
Discontinued operations	(4)	1,047	(1,051)		135	3,394	(3,259)	
<b>NOI including discontinued operations</b>	<b>\$ 32,461</b>	<b>\$ 28,031</b>	<b>\$ 4,430</b>	<b>16</b>	<b>\$ 89,269</b>	<b>\$ 79,000</b>	<b>\$ 10,269</b>	<b>13</b>

(\$000's)	Three Months Ended September 30				Nine Months Ended September 30			
	2005	2004	Growth		2005	2004	Growth	
			Amount	%			Amount	%
Québec	\$ 3,785	\$ 4,075	\$ (290)	(7)	\$ 11,068	\$ 11,824	\$ (756)	(6)
Ontario	9,310	9,167	143	2	28,071	28,188	(117)	-
Western	6,946	6,100	846	14	19,461	17,837	1,624	9
	20,041	19,342	699	4	58,600	57,849	751	1
United States	957	1,003	(46)	(5)	2,960	3,316	(356)	(11)
Comparative properties	20,998	20,345	653	3	61,560	61,165	395	1
Acquisitions	10,959	5,806	5,153		25,739	11,687	14,052	
Rent supplement	486	814	(328)		1,813	2,690	(877)	
Dispositions	22	19	3		22	64	(42)	
NOI	32,465	26,984	5,481	20	89,134	75,606	13,528	18
Discontinued operations	(4)	1,047	(1,051)		135	3,394	(3,259)	
<b>NOI including discontinued operations</b>	<b>\$ 32,461</b>	<b>\$ 28,031</b>	<b>\$ 4,430</b>	<b>16</b>	<b>\$ 89,269</b>	<b>\$ 79,000</b>	<b>\$ 10,269</b>	<b>13</b>

NOI shown above highlights comparative and non-comparative items to assist in understanding the impact each component has on NOI. The discontinued operations that contributed to NOI are shown separately to conform with the required income statement presentation. Comparative NOI and acquisitions include straight-line rents, which were previously disclosed separately when the policy was prospectively adopted at December 31, 2004. Straight-line rent will fluctuate based on the lease agreements entered into by the Trust. Generally, when leases contain contractual rent increases, also known as step rents, straight-line rent will increase revenue at the beginning of the lease term and decrease revenue in the latter periods as compared with accounting for rents as they become due. Management anticipates the impact of straight-line rent to decrease over time.

The increase in comparative NOI in the quarter is reflective of increased occupancy in the Ontario office, and Montréal and Western Canada industrial portfolios. Certain one-time items recorded during the quarter contributed \$0.2 million to NOI.

Property NOI generally varies from period-to-period as a result of the timing of revenues and expenses that do not fluctuate directly with occupancy, such as parking revenue, bad debt provisions and extra tenant services. The increase in overall NOI reflects the impact of acquisitions completed in 2004 and 2005. The rent supplement from DRC described below contributed \$0.5 million and \$1.8 million for the three and nine months, respectively.

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 on office and retail space and three years for industrial space. If at any time any of the spaces to which the supplement applies is either leased, sold or ceases to be managed by Dundee Realty Management Corp., the amount of the rent supplement will be permanently reduced by the amount attributed to that space. The rental supplement decreased in the quarter and year-to-date as a result of leasing activity in supplemented office and industrial space.

*Comparative Office Portfolio*

(\$000's)	Three Months Ended September 30				Nine Months Ended September 30			
	2005	2004	Growth		2005	2004	Growth	
			Amount	%			Amount	%
Québec	\$ 1,092	\$ 1,466	\$ (374)	(26)	\$ 3,366	\$ 4,330	\$ (964)	(22)
Ontario	7,631	7,607	24	-	23,154	23,320	(166)	(1)
Western Canada	4,601	3,962	639	16	12,636	11,630	1,006	9
	<b>13,324</b>	13,035	<b>289</b>	<b>2</b>	<b>39,156</b>	39,280	<b>(124)</b>	<b>-</b>
Acquisitions	6,024	2,173	3,851		12,718	3,050	9,668	
Rent supplement	215	459	(244)		1,129	1,481	(352)	
<b>Office NOI</b>	<b>\$ 19,563</b>	\$ 15,667	<b>\$ 3,896</b>	<b>25</b>	<b>\$ 53,003</b>	\$ 43,811	<b>\$ 9,192</b>	<b>21</b>

Leasing remains a challenge in the Anjou and Décarie sub-markets in Montréal and although the current comparative occupancy level is encouraging, it partially reflects tenants who are maintaining their occupancy on a month-to-month basis after their leases have expired. Our goal is to secure longer-term commitments from these tenants and improve the occupancy levels. There are no lease expiries in the fourth quarter in these sub-markets. The continued decrease in NOI in the third quarter as compared to the prior year reflects the general conditions of this market.

Comparative results in Ontario reflect improved occupancy in the Toronto portfolio, including 110 Sheppard, partially offset by \$0.4 million in one-time items incurred in the quarter. We continue to face some leasing challenges in the St. Clair and North York sub-markets in Toronto, as well as selected properties in suburban Ottawa where leasing has been slow.

The Western Canada office portfolio is almost fully leased with all of the remaining 2005 expiries already committed. Vacancy is forecasted to be less than 2% at year end. Comparative results in Western Canada include a \$0.5 million lease surrender payment. This space was to be surrendered effective April 2006; however, with the booming Calgary market, it was re-leased in the quarter at increased rental rates.

*Comparative Industrial Portfolio*

(\$000's)	Three Months Ended September 30				Nine Months Ended September 30			
	2005	2004	Growth		2005	2004	Growth	
			Amount	%			Amount	%
Québec	\$ 2,693	\$ 2,609	\$ 84	3	\$ 7,702	\$ 7,494	\$ 208	3
Ontario	1,522	1,375	147	11	4,462	4,357	105	2
Western Canada	2,204	1,988	216	11	6,376	5,731	645	11
	<b>6,419</b>	5,972	<b>447</b>	<b>7</b>	<b>18,540</b>	17,582	<b>958</b>	<b>5</b>
Acquisitions	4,935	3,633	1,302		13,021	8,637	4,384	
Rent supplement	278	357	(79)		686	1,218	(532)	
<b>Industrial NOI</b>	<b>11,632</b>	9,962	<b>1,670</b>	<b>17</b>	<b>32,247</b>	27,437	<b>4,810</b>	<b>18</b>
Discontinued operations	-	73	(73)		-	482	(482)	
<b>Industrial NOI including discontinued operations</b>	<b>\$ 11,632</b>	\$ 10,035	<b>\$ 1,597</b>	<b>16</b>	<b>\$ 32,247</b>	\$ 27,919	<b>\$ 4,328</b>	<b>16</b>

Comparative industrial NOI is up 7% over the respective quarter in 2004 driven largely by occupancy growth throughout the portfolio. We anticipate demand for industrial space to remain strong in Western Canada and, while we do not yet have commitments for all leases expiring in the fourth quarter, we are confident that our occupancy rate will remain at the current level. Demand for space in Toronto has also been steady; however, we anticipate some softening in our occupancy rate in the fourth quarter as some larger leases are expiring that will likely experience downtime between tenancies. In Montréal, leases representing approximately 5% of the Montréal industrial portfolio will be expiring in the fourth quarter. Lease negotiations for both renewals and new leasing are ongoing, which we anticipate to be completed in the normal course of business.

*Comparative Retail Portfolio*

(\$000's)	Three Months Ended September 30				Nine Months Ended September 30			
	2005	2004	Growth		2005	2004	Growth	
			Amount	%			Amount	%
Ontario	\$ 157	\$ 185	\$ (28)	(15)	\$ 455	\$ 511	\$ (56)	(11)
Western Canada	141	150	(9)	(6)	449	476	(27)	(6)
Total Canada	298	335	(37)	(11)	904	987	(83)	(8)
United States (US\$)	785	733	52	7	2,392	2,460	(68)	(3)
Foreign exchange	172	270	(98)	(36)	568	856	(288)	(34)
Comparative properties	1,255	1,338	(83)	(6)	3,864	4,303	(439)	(10)
Rent supplement	(7)	(2)	(5)		(2)	(9)	7	
Dispositions	22	19	3		22	64	(42)	
<b>Retail NOI</b>	<b>1,270</b>	<b>1,355</b>	<b>(85)</b>	<b>(6)</b>	<b>3,884</b>	<b>4,358</b>	<b>(474)</b>	<b>(11)</b>
Discontinued operations	(4)	974	(978)		135	2,912	(2,777)	
<b>Retail NOI including discontinued operations</b>	<b>\$ 1,266</b>	<b>\$ 2,329</b>	<b>\$ (1,063)</b>	<b>(46)</b>	<b>\$ 4,019</b>	<b>\$ 7,270</b>	<b>\$ (3,251)</b>	<b>(45)</b>

The decline in comparative retail NOI can largely be attributed to our U.S. asset. Although income in the quarter actually increased, when converted, these results translated into a \$0.1 million decline due to the appreciation in value of the Canadian dollar between periods. The decline in total NOI reflects the sale of Northgate Mall, which contributed \$1.0 million and \$2.9 million for the respective three and nine-month periods in 2004.

*NOI Prior Quarter Comparison*

Overall, NOI growth of 10% quarter-over-quarter largely reflects the impact of acquisitions as well as improved occupancy rates throughout the portfolio. Changes also reflect one-time items incurred in the quarter in the Ontario and Western Canada portfolios. Overall, the comparative properties are maintaining a high level of occupancy and producing consistent NOI.

(\$000's)	Three Months Ended (2005)			
	September 30	June 30	Growth	
			Amount	%
Office	\$ 13,324	\$ 13,099	\$ 225	2
Industrial	6,419	6,107	312	5
Retail	1,255	1,298	(43)	(3)
Comparative properties	20,998	20,504	494	2
Acquisitions	10,959	8,456	2,503	
Rent supplement	486	641	(155)	
Disposition	22	–	22	
<b>NOI</b>	<b>32,465</b>	<b>29,601</b>	<b>2,864</b>	<b>10</b>
Discontinued operations	(4)	101	(105)	
<b>NOI including discontinued operations</b>	<b>\$ 32,461</b>	<b>\$ 29,702</b>	<b>\$ 2,759</b>	<b>9</b>

(\$000's)	Three Months Ended (2005)			
	September 30	June 30	Growth	
			Amount	%
Québec	\$ 3,785	\$ 3,634	\$ 151	4
Ontario	9,310	9,610	(300)	(3)
Western Canada	6,946	6,273	673	11
	20,041	19,517	524	3
United States	957	987	(30)	(3)
Comparative properties	20,998	20,504	494	2
Acquisitions	10,959	8,456	2,503	
Rent supplement	486	641	(155)	
Disposition	22	–	22	
<b>NOI</b>	<b>32,465</b>	<b>29,601</b>	<b>2,864</b>	<b>10</b>
Discontinued operations	(4)	101	(105)	
<b>NOI including discontinued operations</b>	<b>\$ 32,461</b>	<b>\$ 29,702</b>	<b>\$ 2,759</b>	<b>9</b>

## Leasing Profile

The overall percentage of occupied and committed space across our rental properties portfolio increased to 96.1% at quarter-end. Both our average office and industrial portfolio occupancy rates are currently above the national industry averages of 88.6% and 94.9%, respectively (CB Richard Ellis, Canadian Office and Industrial Market Views, 3rd Quarter, 2005). Occupancy rates discussed in this report include occupied and committed space at September 30, 2005 and exclude space to which the rent supplement is applied.

	Total Portfolio		Comparative Properties	
	September 30, 2005 <sup>(2)</sup>	December 31, 2004 <sup>(1)</sup>	September 30, 2005 <sup>(2)</sup>	December 31, 2004 <sup>(1)</sup>
Office				
Québec	<b>90.1%</b>	89.2%	<b>86.6%</b>	89.2%
Ontario	<b>95.8%</b>	93.2%	<b>95.0%</b>	93.2%
Western Canada	<b>98.5%</b>	99.3%	<b>99.0%</b>	99.3%
Other	<b>99.6%</b>	–	–	–
	<b>95.0%</b>	93.6%	<b>93.9%</b>	93.6%
Industrial <sup>(1)</sup>				
Québec	<b>95.2%</b>	91.4%	<b>94.2%</b>	91.4%
Ontario	<b>98.7%</b>	98.1%	<b>98.6%</b>	98.1%
Western Canada	<b>98.4%</b>	96.9%	<b>98.4%</b>	96.9%
	<b>97.2%</b>	95.2%	<b>96.9%</b>	95.2%
Retail				
Ontario <sup>(3)</sup>	<b>85.7%</b>	91.0%	<b>85.7%</b>	91.0%
Western Canada	<b>100.0%</b>	100.0%	<b>100.0%</b>	100.0%
United States	<b>93.8%</b>	93.2%	<b>93.8%</b>	93.2%
	<b>93.0%</b>	93.3%	<b>93.0%</b>	93.3%
Overall	<b>96.1%</b>	94.5%	<b>95.6%</b>	94.5%

(1) Excludes: 2301 and 2311 Royal Windsor Drive, Mississauga.

(2) Excludes: 2280 boul. Alfred-Nobel, Montréal.

(3) On October 3, 2005 an agreement was reached to sell Simcoe Town Centre.

Our portfolio remains well occupied. Based on our current experience, we anticipate stable occupancy throughout 2005. We do caution, however, that while our experience to date has been positive, there is the potential for greater downtime between tenancies when leasing larger spaces, particularly for those properties that may require improvements or changes prior to a new tenant taking occupancy. We anticipate that a few larger industrial tenants in Montréal and Toronto will be vacating their premises in the fourth quarter of 2005.

Summary of leasing activity to September 30, 2005:

(square feet)	Office	Industrial	Retail	Total
Vacant space available – January 1, 2005	<b>301,579</b>	<b>355,465</b>	<b>65,445</b>	<b>722,489</b>
Remeasurements	<b>(1,307)</b>	<b>1,601</b>	–	<b>294</b>
Acquisitions	<b>19,772</b>	<b>8,995</b>	–	<b>28,767</b>
Leases terminated/expiring	<b>434,326</b>	<b>1,155,994</b>	<b>105,916</b>	<b>1,696,236</b>
Total space available for lease	<b>754,370</b>	<b>1,522,055</b>	<b>171,361</b>	<b>2,447,786</b>
New tenants	<b>215,669</b>	<b>491,654</b>	<b>18,499</b>	<b>725,822</b>
Renewals	<b>231,888</b>	<b>793,823</b>	<b>85,228</b>	<b>1,110,939</b>
Total space leased	<b>447,557</b>	<b>1,285,477</b>	<b>103,727</b>	<b>1,836,761</b>
Total space available for lease – September 30, 2005	<b>306,813</b>	<b>236,578</b>	<b>67,634</b>	<b>611,025</b>
Net (increase) decrease in vacant space	<b>(5,234)</b>	<b>118,887</b>	<b>(2,189)</b>	<b>111,464</b>

The above table shows a net decrease in vacant space of 111,464 square feet at September 30, 2005. The overall increase in occupied and committed space is a result of leasing activity and the acquisition of well leased properties. During the nine months ended September 30, 2005, occupancy improved with 1.7 million square feet of leases expiring offset by 1.8 million square feet of new leases and renewals. The volume of leasing in the office and industrial portfolios is consistent with normalized levels discussed previously.

Lease maturity profile as at September 30, 2005 by asset type:

(square feet)	Current Vacancy	Current Monthly Tenancies	2005	2006	2007	2008	2009 and Thereafter	Total
Office	306,813	58,895	99,550	600,522	753,123	486,578	3,772,648	6,078,129
Industrial	236,578	128,899	438,015	1,294,004	1,172,835	1,243,635	3,939,403	8,453,369
Retail	67,634	17,121	9,528	63,955	91,879	114,062	605,721	969,900
<b>Total</b>	<b>611,025</b>	<b>204,915</b>	<b>547,093</b>	<b>1,958,481</b>	<b>2,017,837</b>	<b>1,844,275</b>	<b>8,317,772</b>	<b>15,501,398</b>
Percentage	4.0%	1.3%	3.5%	12.6%	13.0%	11.9%	53.7%	100.0%

Average Expiring Rents as at September 30, 2005:

	Current Monthly Tenancies	2005	2006	2007	2008	2009 and Thereafter
Office	\$ 10.74	\$ 12.15	\$ 15.36	\$ 11.86	\$ 12.34	\$ 14.75
Industrial	4.58	5.12	5.40	4.95	5.04	6.70
<b>Average</b>	<b>6.51</b>	<b>6.42</b>	<b>8.56</b>	<b>7.65</b>	<b>7.09</b>	<b>10.64</b>
Retail	14.88	17.34	12.99	10.72	12.19	7.13
<b>Portfolio average</b>	<b>\$ 7.21</b>	<b>\$ 6.61</b>	<b>\$ 8.70</b>	<b>\$ 7.79</b>	<b>\$ 7.41</b>	<b>\$ 10.38</b>

New acquisitions have allowed us more flexibility in our space offerings to existing and prospective tenants. Where necessary, we will continue to work with tenants and offer alternative space solutions. We also make every effort to accommodate the need for growth, but with virtually fully leased industrial portfolios in Ontario and Western Canada and office portfolio in Western Canada, this could prove to be challenging.

Average remaining lease term as at September 30 and other portfolio information:

	September 30, 2005 <sup>(1)</sup>			December 31, 2004 <sup>(3)</sup>		
	Average Remaining Lease Term (years)	Average Tenant Size (sq. ft.)	Average In-Place Net Rent (per sq. ft.) <sup>(2)</sup>	Average Remaining Lease Term (years)	Average Tenant Size (sq. ft.)	Average In-Place Net Rent (per sq. ft.) <sup>(1)</sup>
Office	<b>4.60</b>	<b>8,527</b>	<b>\$ 14.15</b>	5.24	8,270	\$ 14.35
Industrial	<b>4.27</b>	<b>13,063</b>	<b>\$ 5.88</b>	3.48	13,091	\$ 5.78
<b>Average</b>	<b>4.41</b>	<b>10,575</b>	<b>\$ 9.29</b>	<b>3.99</b>	<b>10,491</b>	<b>\$ 9.06</b>
Retail	<b>5.24</b>	<b>6,223</b>	<b>\$ 8.81</b>	5.57	5,990	\$ 9.10
<b>Portfolio average</b>	<b>4.46</b>	<b>10,165</b>	<b>\$ 9.26</b>	<b>4.25</b>	<b>9,980</b>	<b>\$ 9.06</b>

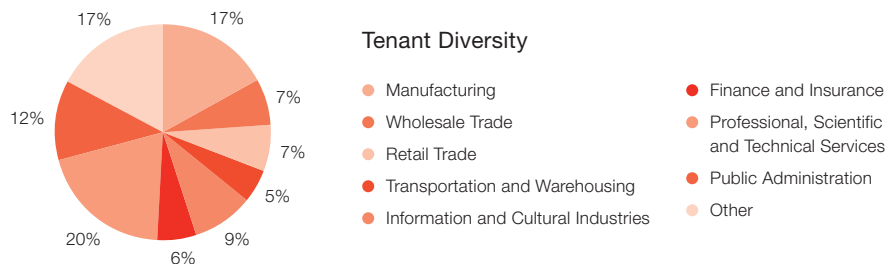
(1) Excludes 2280 boul. Alfred-Nobel, Montréal, under redevelopment.

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

(3) Excludes 2301 and 2311 Royal Windsor Drive, Mississauga.

Dundee REIT has a broad tenant base with the average tenant occupying approximately 10,000 square feet. The result is a large and diverse tenant base. With approximately 1,500 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 Ontario, the Government of Canada and Telus Communications, comprise approximately 5.3%, 4.8% and 3.8% of our gross rental revenue, respectively. The table below sets out the percentage contribution to gross rental revenue of our ten largest tenants:

Tenant	Owned Area (sq. ft.)	% of Owned Area	% of Gross Rental Revenue	Expiry
Government of Ontario	474,000	3.1%	5.3%	2005–2015
Government of Canada	412,000	2.7%	4.8%	2006–2015
Telus Communications	291,000	1.9%	3.8%	2016
Bell Canada	272,000	1.8%	2.3%	2009–2010
State Street Trust Company	94,000	0.6%	1.7%	2012
Atomic Energy of Canada Ltd.	226,000	1.5%	1.6%	2009
International Financial Data Services	96,000	0.6%	1.6%	2007–2013
Government of BC	102,000	0.7%	1.5%	2006–2009
IBM Canada	112,000	0.7%	1.4%	2008–2011
Epcor Utilities	188,000	1.2%	1.3%	2011
<b>Total</b>	<b>2,267,000</b>	<b>14.8%</b>	<b>25.3%</b>	

### Acquisitions Completed in Third Quarter

A component of our growth strategy is to acquire office and industrial properties in our key markets, allowing us to capitalize on operational efficiencies, further increase our presence and critical mass in our target markets and to improve the overall quality and rental income stability of our portfolio. Acquisitions completed in this quarter are outlined below.

	Property Type	Interest Acquired	Occupancy on Acquisition	Acquired GLA	Purchase Price (\$'000's)	Date Acquired
199 Traders Blvd. East, Mississauga	Industrial	100%	100%	77,000	\$ 7,246	August 9, 2005
Scotia Centre, St. John's	Office	100%	100%	190,000	33,370	August 18, 2005
9975-9995 boul. de Catania, Brossard	Industrial	100%	95%	124,000	15,989	August 30, 2005
1523-1531 rue Berlier, Laval	Industrial	100%	100%	6,000	540	August 30, 2005
3913-3917 81st Avenue, Leduc (Edmonton)	Under development	100%	–	–	718	September 23, 2005
<b>Total</b>				<b>397,000</b>	<b>\$ 57,863</b>	
Average capitalization rate (excluding property under development)						8.0%

Three of the properties acquired align with the strategy outline above. Our acquisition focus remains on individual office and industrial properties in our existing locations; however, due to an increasingly competitive acquisition market, we have begun to look in new markets. The third quarter marked our entrance into Atlantic Canada with the acquisition of Scotia Centre in St. John's, Newfoundland. Also acquired during the quarter was a parcel of land in suburban Edmonton upon which we are constructing a 29,000 square foot design/build for the tenant. The estimated cost of construction is \$2.6 million with completion scheduled for 2006. The tenant, from whom we purchased the land, has committed to a 15-year lease at rates that provide us with a sufficient return on our investment in both the land and building.

Subsequent to quarter-end, we have entered into agreements to acquire 376,000 square feet of properties for approximately \$37.4 million. In addition, we have approximately \$110.7 million of properties under contract, subject to a variety of conditions, comprising 1.1 million square feet.

## Quarterly Information

The following table shows quarterly information since December 31, 2003.

(\$000's)	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004 <sup>(1)</sup>	Q2 2004 <sup>(1)</sup>	Q1 2004 <sup>(1)</sup>	Q4 2003 <sup>(1)</sup>
<b>Rental Properties</b>								
Revenues	\$ 58,030	\$ 53,378	\$ 50,793	\$ 50,098	\$ 47,983	\$ 46,191	\$ 42,908	\$ 38,545
Operating expenses	25,565	23,777	23,725	23,831	20,999	20,418	20,059	18,955
<b>Net operating income</b>	<b>32,465</b>	29,601	27,068	26,267	26,984	25,773	22,849	19,590
<b>Other expenses</b>								
Interest	14,449	13,284	11,735	11,663	11,739	10,304	9,561	8,866
Depreciation of rental properties	8,053	6,884	6,689	6,780	6,592	6,290	5,884	2,428
Amortization of deferred leasing costs and intangibles	5,765	4,524	3,778	3,671	3,761	3,363	1,767	1,540
General and administrative	1,362	1,245	1,161	1,899	1,145	1,205	952	1,115
	29,629	25,937	23,363	24,013	23,237	21,162	18,164	13,949
<b>Other income</b>								
Interest and fee income, net	411	619	718	637	583	429	583	484
<b>Income before gain (loss) on disposal of rental property and dilution gain</b>	<b>3,247</b>	4,283	4,423	2,891	4,330	5,040	5,268	6,125
Gain (loss) on disposal of rental property	–	–	–	(11)	–	(11)	177	(289)
Dilution gain	269	652	673	548	365	185	633	–
<b>Income before income and large corporations taxes</b>	<b>3,516</b>	4,935	5,096	3,428	4,695	5,214	6,078	5,836
<b>Income taxes</b>								
Current income and large corporations taxes	44	41	47	46	29	18	20	35
Future income taxes	259	183	192	(25)	(1,946)	(1)	(41)	65
	303	224	239	21	(1,917)	17	(21)	100
<b>Income before non-controlling interest and discontinued operations</b>	<b>3,213</b>	4,711	4,857	3,407	6,612	5,197	6,099	5,736
Income attributable to non-controlling interest	987	1,343	1,362	970	1,961	1,557	1,849	2,256
<b>Income before discontinued operations</b>	<b>2,226</b>	3,368	3,495	2,437	4,651	3,640	4,250	3,480
Discontinued operations	(3)	52	186	590	724	(11,846)	(93)	94
<b>Net income (loss)</b>	<b>\$ 2,223</b>	\$ 3,420	\$ 3,681	\$ 3,027	\$ 5,375	\$ (8,206)	\$ 4,157	\$ 3,574
<b>Net income (loss) per unit</b>								
Basic	\$ 0.13	\$ 0.20	\$ 0.22	\$ 0.18	\$ 0.32	\$ (0.49)	\$ 0.29	\$ 0.32
Diluted <sup>(2)</sup>	\$ 0.12	\$ 0.17	\$ 0.18	\$ 0.16	\$ 0.30	\$ (0.50)	\$ 0.25	\$ 0.32

(1) Restated to reflect retroactive adoption of EIC-151 as described on page 26.

(2) Excludes impact of 6.5% Debentures and 5.7% Debentures, which are currently not dilutive to net income.

## Calculation of Funds from Operations and Distributable Income

(\$000's)	Q3 2005	Q2 2005	Q1 2005	Q4 2004 <sup>(1)</sup>	Q3 2004 <sup>(2)</sup>	Q2 2004 <sup>(2)</sup>	Q1 2004 <sup>(2)</sup>	Q4 2003 <sup>(2)</sup>
<b>Net income (loss)</b>	<b>\$ 2,223</b>	\$ 3,420	\$ 3,681	\$ 3,027	\$ 5,375	\$ (8,206)	\$ 4,157	\$ 3,574
Add (deduct):								
Depreciation of rental properties	<b>8,053</b>	6,884	6,688	6,785	6,605	6,690	6,284	2,588
Amortization of deferred leasing costs and intangibles	<b>5,765</b>	4,524	3,778	3,672	3,764	3,494	1,903	1,703
Future income tax	<b>259</b>	183	192	(25)	(1,946)	(1)	(41)	65
Imputed amortization of leasing costs related to the rent supplement	<b>168</b>	204	487	336	286	362	380	375
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	<b>(4)</b>	(3)	(4)	(4)	(3)	(3)	(2)	(1)
Dilution gain	<b>(269)</b>	(652)	(673)	(548)	(365)	(185)	(633)	–
(Gain) loss on disposal of rental properties	<b>–</b>	25	(242)	(287)	(443)	(2,396)	(177)	289
Provision for impairment in value of rental property	<b>–</b>	–	–	–	–	19,729	–	–
Non-controlling interest	<b>986</b>	1,367	1,451	1,245	2,292	(3,782)	1,801	2,317
<b>Funds from operations</b>	<b>17,181</b>	15,952	15,358	14,201	15,565	15,702	13,672	10,910
Add (deduct):								
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	<b>–</b>	–	–	4	3	3	2	1
Imputed amortization of leasing costs related to the rent supplement	<b>(168)</b>	(204)	(487)	–	–	–	–	–
Amortization of marked-to-market adjustment on acquired debt	<b>(426)</b>	(819)	(350)	(315)	(315)	(484)	(324)	(106)
Compensation expense related to deferred unit incentive plan	<b>240</b>	172	175	568	107	106	105	104
Straight-line rent	<b>(904)</b>	(874)	(1,070)	(889)	(1,140)	(1,286)	(949)	–
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	<b>78</b>	3	4	14	32	33	53	28
Amortization of deferred financing costs incurred prior to June 30, 2003	<b>98</b>	87	87	104	86	74	203	210
Amortization of deferred leasing costs incurred subsequent to June 30, 2003	<b>–</b>	–	–	(1,089)	(796)	(544)	(304)	(296)
Amortization of market adjustment on acquired leases	<b>(109)</b>	(108)	(33)	(56)	(83)	8	–	–
<b>Distributable income</b>	<b>\$ 15,990</b>	\$ 14,209	\$ 13,684	\$ 12,542	\$ 13,459	\$ 13,612	\$ 12,458	\$ 10,851
<b>Funds from operations per unit</b>								
Basic <sup>(1)</sup>	<b>\$ 0.68</b>	\$ 0.64	\$ 0.62	\$ 0.58	\$ 0.64	\$ 0.65	\$ 0.64	\$ 0.59
Diluted	<b>\$ 0.63</b>	\$ 0.60	\$ 0.60	\$ 0.56	\$ 0.62	\$ 0.65	\$ 0.64	\$ 0.59
<b>Distributable income per unit</b>								
Basic <sup>(1)</sup>	<b>\$ 0.63</b>	\$ 0.57	\$ 0.55	\$ 0.51	\$ 0.55	\$ 0.56	\$ 0.58	\$ 0.59
Diluted	<b>\$ 0.59</b>	\$ 0.54	\$ 0.54	\$ 0.50	\$ 0.54	\$ 0.56	\$ 0.58	\$ 0.59
<b>Weighted average units outstanding for FFO and DI</b>								
Basic	<b>25,387,969</b>	25,081,201	24,865,912	24,651,828	24,411,074	24,175,288	21,508,753	18,203,105
Diluted	<b>31,712,785</b>	31,480,407	27,924,777	27,694,849	27,446,183	24,530,461	21,532,903	18,213,417

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

(2) Restated to reflect retroactive adoption of EIC-151 as described on page 26.

(3) Restated to reflect change to FFO definition as described on page 12.

Period end occupied and committed space:

	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003
Office	<b>95.0%</b>	95.1%	94.0%	93.6%	94.3%	94.6%	93.3%	92.4%
Industrial	<b>97.2%</b>	96.6%	96.3%	95.2%	94.4%	94.1%	94.1%	93.1%
Retail	<b>93.0%</b>	93.0%	92.4%	93.3%	92.9%	92.8%	92.1%	92.5%
Overall	<b>96.1%</b>	95.8%	95.2%	94.5%	94.3%	94.2%	93.6%	92.7%

Excludes properties under redevelopment and properties held for sale

## Outlook

At the beginning of this discussion we set out our methodology for meeting our objectives and strategy. We are steadfast in the execution of our strategy and are very pleased to see the benefits reflected in our results. In the third quarter we continued to refinance debt, further reducing our average interest rate and lengthening our average term to maturity. Our occupancy rates are at an all-time high, rental rates seem to be improving and capital expenditure costs are in line with our expectations. Leasing costs on a per square foot basis were lower than our estimate while leasing activity and occupancy have both increased. The comparative property portfolio continues to produce consistent results, even showing some growth this quarter, and acquisitions are producing the anticipated results.

The fundamentals of the operating environment are somewhat mixed. The indicators for office properties are positive – occupancy rates across the country have been rising for the past two years, rental rates are beginning to improve in many markets and there is very little new development on the horizon. On the other hand, we are somewhat concerned about the impact of the rising Canadian dollar on the industrial market, as well as the impact of new construction that is taking place. However, possessing a diversified portfolio helps us to produce consistent results and to mitigate this type of uncertainty.

Looking ahead, we will remain focused on effectively managing the business and growing our funds from operations. There may be some increase in vacancy in the fourth quarter associated with the turnover of a few larger tenancies in the industrial portfolio; however, for the most part we anticipate our portfolio will remain well occupied. Our current acquisition strategy is focused on individual office and industrial properties that complement our existing portfolio and that are accretive. We will continue to pursue external growth in our existing target markets but will also consider compelling investment opportunities in new markets as well.

## Risks and Our Strategy to Manage

Dundee REIT is exposed to various risks and uncertainties. For a list and explanation of these risks and uncertainties, please refer to our 2004 Annual Report or our Annual Information Form for the year ended December 31, 2004 filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

The Canadian Ministry of Finance released a White Paper as a starting point for upcoming consultations on tax issues related to business income trusts and other flow-through entities ("FTEs"). This document, titled "Tax and Other Issues Related to Publicly Listed Flow-Through Entities (Income Trusts and Limited Partnerships) – Consultation Paper", does not represent legislation or an expression of government intentions with regards to legislation. It is basically a template that the government will use as a basis for consultation with income trust stakeholders. Based on the outcome of this consultation, the government may enact legislation that could impact the tax status of FTEs including real estate investment trusts. If enacted, this change may have a negative impact on net income, FFO, distributable income and distributions available to unitholders.

## 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 2004 Annual Report.

## Changes in Accounting Policies

### **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.

EIC-151 applies to all financial statements issued after January 19, 2005 and is required to be applied on a retroactive basis. As a result, we have accounted for the investment of the net proceeds that we received from equity offerings in Dundee Properties L.P. 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 our ownership of Dundee Properties L.P. Adoption of EIC-151 had the effect as at and for the nine months ended September 30, 2005 of recognizing non-controlling interest in the balance sheet of \$147.4 million, recognizing a dilution gain of \$1.6 million and income attributable to non-controlling interest in continuing operations of \$3.7 million, net of income of \$0.1 million from discontinued operations.

### **Variable Interest Entities**

Effective January 1, 2005, the CICA issued 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 that entity 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. As at September 30, 2005, we did not have any interest in any VIE.

# Consolidated Financial Statements

## Consolidated Balance Sheets

(unaudited)  
(in thousands of dollars)

	Note	September 30, 2005	December 31, 2004
<b>Assets</b>			
Rental properties	4	\$ 1,282,168	\$ 1,057,231
Deferred costs	5	62,374	50,346
Amounts receivable	6	10,470	9,276
Prepaid expenses and other assets	7	26,083	32,927
Cash and cash equivalents		5,958	17,331
Intangible assets	8	53,502	30,297
Discontinued operations' assets	17	79	2,384
		<b>\$ 1,440,634</b>	<b>\$ 1,199,792</b>
<b>Liabilities</b>			
Debt	9	\$ 936,236	\$ 693,155
Amounts payable and accrued liabilities	10	31,084	24,628
Distributions payable	11	4,761	4,597
Future income tax liability		5,818	5,359
Intangible liabilities	8	6,094	3,239
Discontinued operations' liabilities	17	79	2,013
		<b>984,072</b>	<b>732,991</b>
<b>Non-controlling interest</b>	12	<b>147,449</b>	<b>148,256</b>
<b>Unitholders' equity</b>	12	<b>309,113</b>	<b>318,545</b>
		<b>\$ 1,440,634</b>	<b>\$ 1,199,792</b>

See accompanying notes to the consolidated financial statements

## Consolidated Statements of Net Income

(unaudited) (in thousands of dollars, except per unit amounts)	Note	For the Three Months Ended September 30		For the Nine Months Ended September 30	
		2005	2004	2005	2004
			<i>(Restated, see Note 12)</i>		<i>(Restated, see Note 12)</i>
<b>Rental properties</b>					
Revenues		<b>\$ 58,030</b>	\$ 47,983	<b>\$ 162,201</b>	\$ 137,082
Operating expenses		<b>25,565</b>	20,999	<b>73,067</b>	61,476
<b>Net operating income</b>		<b>32,465</b>	26,984	<b>89,134</b>	75,606
<b>Other expenses</b>					
Interest	13	<b>14,449</b>	11,739	<b>39,468</b>	31,604
Depreciation of rental properties		<b>8,053</b>	6,592	<b>21,626</b>	18,766
Amortization of deferred leasing costs and intangibles		<b>5,765</b>	3,761	<b>14,067</b>	8,891
General and administrative		<b>1,362</b>	1,145	<b>3,768</b>	3,302
		<b>29,629</b>	23,237	<b>78,929</b>	62,563
<b>Other income</b>					
Interest and fee income, net		<b>411</b>	583	<b>1,748</b>	1,595
<b>Income before gain on disposal of rental property and dilution gain</b>		<b>3,247</b>	4,330	<b>11,953</b>	14,638
Gain on disposal of rental property		-	-	-	166
Dilution gain	12	<b>269</b>	365	<b>1,594</b>	1,183
<b>Income before income and large corporations taxes</b>		<b>3,516</b>	4,695	<b>13,547</b>	15,987
<b>Income taxes</b>					
Current income and large corporations taxes		<b>44</b>	29	<b>132</b>	67
Future income taxes		<b>259</b>	(1,946)	<b>634</b>	(1,988)
		<b>303</b>	(1,917)	<b>766</b>	(1,921)
<b>Income before non-controlling interest and discontinued operations</b>		<b>3,213</b>	6,612	<b>12,781</b>	17,908
<b>Income attributable to non-controlling interest</b>		<b>987</b>	1,961	<b>3,692</b>	5,367
<b>Income before discontinued operations</b>		<b>2,226</b>	4,651	<b>9,089</b>	12,541
<b>Discontinued operations</b>	17	<b>(3)</b>	724	<b>235</b>	(11,215)
<b>Net income</b>		<b>\$ 2,223</b>	\$ 5,375	<b>\$ 9,324</b>	\$ 1,326
<b>Basic income (loss) per unit</b>					
Continuing operations	14	<b>\$ 0.13</b>	\$ 0.28	<b>\$ 0.54</b>	\$ 0.79
Discontinued operations		-	0.04	<b>0.01</b>	(0.71)
<b>Net income</b>		<b>\$ 0.13</b>	\$ 0.32	<b>\$ 0.55</b>	\$ 0.08
<b>Diluted income (loss) per unit</b>					
Continuing operations	14	<b>\$ 0.12</b>	\$ 0.26	<b>\$ 0.45</b>	\$ 0.72
Discontinued operations		-	0.04	<b>0.01</b>	(0.70)
<b>Net income</b>		<b>\$ 0.12</b>	\$ 0.30	<b>\$ 0.46</b>	\$ 0.02

See accompanying notes to the consolidated financial statements

## Consolidated Statements of Unitholders' Equity

(unaudited) (in thousands of dollars)	Note	Number of Units	Cumulative Capital	Cumulative Net Income	Cumulative Distributions	Cumulative Foreign Currency Translation Adjustment	Total
<b>Unitholders' equity, January 1, 2005</b>		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	12	279,185	7,379	-	-	-	7,379
Unit Purchase Plan	12	7,831	210	-	-	-	210
Conversion of 6.5% convertible debenture to equity	12	81,040	2,026	-	-	-	2,026
Redemption of units		(100)	(2)	-	-	-	(2)
Deferred Unit Incentive Plan	12	16,764	587	-	-	-	587
Issue costs		-	(257)	-	-	-	(257)
Equity component of convertible debenture	9	-	1,200	-	-	-	1,200
Change in foreign currency translation adjustment		-	-	-	-	(1,818)	(1,818)
<b>Unitholders' equity, September 30, 2005</b>		<b>17,204,683</b>	<b>\$ 368,728</b>	<b>\$ 20,859</b>	<b>\$ (75,530)</b>	<b>\$ (4,944)</b>	<b>\$ 309,113</b>

(unaudited) (in thousands of dollars)	Note	Number of Units	Cumulative Capital	Cumulative Net Income	Cumulative Distributions	Cumulative Foreign Currency Translation Adjustment	Total
							<i>(Restated, see Note 12)</i>
<b>Unitholders' equity, January 1, 2004</b>		12,094,217	\$ 247,147	\$ 7,182	\$ (11,370)	\$ (1,878)	\$ 241,081
Net income		-	-	1,326	-	-	1,326
Distributions paid		-	-	-	(23,735)	-	(23,735)
Distributions payable		-	-	-	(3,081)	-	(3,081)
Public offering of units		4,537,000	110,022	-	-	-	110,022
Distribution Reinvestment Plan		136,569	3,252	-	-	-	3,252
Unit Purchase Plan		5,910	141	-	-	-	141
Redemption of units		(1,479)	(30)	-	-	-	(30)
Deferred Unit Incentive Plan		4,712	318	-	-	-	318
Issue costs		-	(5,400)	-	-	-	(5,400)
Equity component of convertible debenture	9	-	600	-	-	-	600
Change in foreign currency translation adjustment		-	-	-	-	(369)	(369)
<b>Unitholders' equity, September 30, 2004</b>		<b>16,776,929</b>	<b>\$ 356,050</b>	<b>\$ 8,508</b>	<b>\$ (38,186)</b>	<b>\$ (2,247)</b>	<b>\$ 324,125</b>

See accompanying notes to the consolidated financial statements

## Consolidated Statements of Cash Flows

(unaudited) (in thousands of dollars)	Note	For the Three Months Ended September 30		For the Nine Months Ended September 30	
		2005	2004	2005	2004
			<i>(Restated, see Note 12)</i>		<i>(Restated, see Note 12)</i>
<b>Generated from (utilized in) operating activities</b>					
Net income		<b>\$ 2,223</b>	\$ 5,375	<b>\$ 9,324</b>	\$ 1,326
Non-cash items:					
Depreciation of rental properties		<b>8,053</b>	6,605	<b>21,626</b>	19,579
Amortization of deferred leasing costs and intangibles		<b>5,765</b>	3,764	<b>14,067</b>	9,161
Amortization of deferred financing costs		<b>440</b>	325	<b>1,137</b>	721
Amortization of marked-to-market adjustment on acquired debt		<b>(426)</b>	(315)	<b>(1,595)</b>	(1,123)
Provision for impairment in value of rental property		-	-	-	19,729
Gain on disposal of rental properties		-	(442)	<b>(217)</b>	(3,016)
Deferred unit compensation expense	12	<b>240</b>	106	<b>587</b>	318
Future income taxes		<b>259</b>	(1,946)	<b>634</b>	(1,988)
Amortization of market rent adjustments on acquired leases		<b>(109)</b>	(83)	<b>(250)</b>	(75)
Straight-line rent adjustment		<b>(904)</b>	(1,140)	<b>(2,849)</b>	(3,375)
Dilution gain		<b>(269)</b>	(365)	<b>(1,594)</b>	(1,183)
Non-controlling interest		<b>986</b>	2,292	<b>3,804</b>	311
		<b>16,258</b>	14,176	<b>44,674</b>	40,385
Deferred leasing costs incurred		<b>(2,366)</b>	(6,315)	<b>(7,703)</b>	(10,980)
Change in non-cash working capital	19	<b>306</b>	2,744	<b>6,292</b>	7,562
		<b>14,198</b>	10,605	<b>43,263</b>	36,967
<b>Generated from (utilized in) investing activities</b>					
Investment in rental properties		<b>(1,719)</b>	(1,100)	<b>(4,124)</b>	(5,751)
Acquisition of rental properties	3	<b>(50,092)</b>	(60)	<b>(220,503)</b>	(153,990)
Acquisition deposit on rental properties		<b>500</b>	-	<b>(175)</b>	-
Investment in mezzanine loan	7	-	-	<b>(750)</b>	(10,476)
Net proceeds from disposal of rental properties		-	742	<b>2,254</b>	5,772
Change in restricted cash, net		<b>1,136</b>	84	<b>9,589</b>	(637)
		<b>(50,175)</b>	(334)	<b>(213,709)</b>	(165,082)
<b>Generated from (utilized in) financing activities</b>					
Mortgages placed		<b>69,750</b>	-	<b>126,800</b>	71,912
Mortgage principal repayments		<b>(4,607)</b>	(3,658)	<b>(12,753)</b>	(11,286)
Mortgage lump sum repayments		-	-	<b>(39,698)</b>	(49,802)
Term debt placed		-	-	-	60,553
Term debt principal repayments		<b>(141)</b>	(202)	<b>(380)</b>	(679)
Term debt lump sum repayments		-	-	<b>(2,075)</b>	(79,994)
Convertible debentures issued, net of costs		<b>(216)</b>	(517)	<b>95,452</b>	71,432
Demand revolving credit facility, net		<b>(20,662)</b>	-	<b>21,577</b>	(7,026)
Demand non-revolving credit facility		-	-	<b>(6,107)</b>	-
Distributions paid on REIT Units, Series A	11	<b>(7,400)</b>	(8,242)	<b>(23,791)</b>	(22,710)
Units issued net of costs		<b>46</b>	47	<b>48</b>	103,382
		<b>36,770</b>	(12,572)	<b>159,073</b>	135,782
<b>Increase (decrease) in cash and cash equivalents</b>		<b>793</b>	(2,301)	<b>(11,373)</b>	7,667
<b>Cash and cash equivalents, beginning of period</b>		<b>5,165</b>	13,944	<b>17,331</b>	3,976
<b>Cash and cash equivalents, end of period</b>		<b>\$ 5,958</b>	\$ 11,643	<b>\$ 5,958</b>	\$ 11,643

See accompanying notes to the consolidated financial statements

# Notes to the Consolidated Financial Statements

(unaudited)  
(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.

At our annual and special meeting held on May 5, 2005, unitholders approved an amendment to our Declaration of Trust authorizing the 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.

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") 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.

These financial statements present the financial position of Dundee REIT at September 30, 2005 and December 31, 2004 and the results of its operations and cash flows for the three and nine months ended September 30, 2005 and September 30, 2004.

## 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 financial statements of Dundee REIT as at, and for the year ended December 31, 2004. 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 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 reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

These financial statements follow the same accounting policies and the methods of their application as used in the December 31, 2004 financial statements except as discussed below.

### Variable Interest Entities

On January 1, 2005, the Trust prospectively 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. As at September 30, 2005, the Trust did not have any interest in VIEs.

### 3. Property Acquisitions

The Trust completed the following acquisitions during the nine-month periods ended September 30, 2005 and 2004, which contributed to operating results effective from the acquisition date:

Nine months ended September 30, 2005	Property Type	Interest Acquired	Acquired GLA (sq. ft.)	Occupancy on Acquisition	Purchase Price	Fair Value of Mortgage Assumed	Date Acquired
2599 Speakman Drive, Mississauga	office	100%	114,000	100%	\$ 9,631	\$ 4,655	January 13, 2005
1219 Corporate Drive, Burlington	industrial	100%	103,000	100%	6,640	–	January 31, 2005
204 King Street East, Toronto	office	100%	135,000	100%	20,475	–	February 25, 2005
2580 Avenue Dollard, Montréal	industrial	100%	90,000	100%	4,704	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	–	5,485	–	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	under development	100%	–	–	718	–	September 23, 2005
<b>Total</b>			<b>2,446,000</b>		<b>\$ 279,101</b>	<b>\$ 57,479</b>	

Nine months ended September 30, 2004	Property Type	Interest Acquired	Acquired GLA (sq. ft.)	Occupancy on Acquisition	Purchase Price	Fair Value of Mortgage Assumed	Date Acquired
Pauls Portfolio, Toronto and Calgary	office, flex industrial	100%	1,598,000	98%	\$ 169,515	\$ 80,041	February 19, 2004
222-230 Queen Street, Ottawa	office	16.4% <sup>(1)</sup>	34,000	100%	6,041	2,225	January 1, 2004/ 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%	6,565	–	May 12, 2004
Montréal Portfolio, Montréal	office	100%	323,000	100%	64,529	–	June 21, 2004
<b>Total</b>			<b>2,115,000</b>		<b>\$ 272,693</b>	<b>\$ 102,866</b>	

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

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

	For the Nine Months Ended September 30	
	2005	2004
Rental properties		
Land	\$ 30,975	\$ 48,816
Buildings	206,214	183,136
Under development	6,203	–
	<b>243,392</b>	231,952
Deferred leasing costs		
Deferred leasing costs acquired	9,556	8,965
Tenant loan receivables	177	–
Intangible assets		
Value of in-place leases	14,128	13,255
Lease origination costs	3,014	4,399
Value of above market rent leases	1,412	3,438
Value of tenant relationships	11,057	14,277
	<b>282,736</b>	276,286
Intangible liabilities		
Value of below market rent leases	(3,635)	(3,279)
Accounts payable and accrued liabilities	–	(314)
<b>Total purchase price</b>	<b>\$ 279,101</b>	\$ 272,693
The consideration paid consists of:		
Cash		
Paid in period	\$ 220,503	\$ 153,990
Deposit	450	14,300
	<b>220,953</b>	168,290
Assumed mortgages at fair value	57,479	102,866
Assumed accounts payable and accrued liabilities	669	1,537
<b>Total consideration</b>	<b>\$ 279,101</b>	\$ 272,693

The allocations of the purchase prices to fair values of assets acquired and liabilities assumed for property acquisitions completed during the nine months ended September 30, 2005 have not been finalized and will be subject to adjustment.

## 4. Rental Properties

	September 30, 2005			December 31, 2004		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 226,546	\$ –	\$ 226,546	\$ 195,693	\$ –	\$ 195,693
Buildings and improvements	1,125,526	(77,218)	1,048,308	916,737	(56,279)	860,458
Equipment	2,932	(2,213)	719	5,264	(4,184)	1,080
Rental properties under development	6,595	–	6,595	–	–	–
<b>Total</b>	<b>\$ 1,361,599</b>	<b>\$ (79,431)</b>	<b>\$ 1,282,168</b>	<b>\$ 1,117,694</b>	<b>\$ (60,463)</b>	<b>\$ 1,057,231</b>

## 5. Deferred Costs

	September 30, 2005			December 31, 2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Deferred leasing costs	\$ 67,057	\$ (22,954)	\$ 44,103	\$ 52,032	\$ (16,835)	\$ 35,197
Deferred recoverable costs	13,615	(6,286)	7,329	13,513	(5,426)	8,087
Deferred financing costs	13,765	(3,601)	10,164	8,779	(2,575)	6,204
Other deferred costs	1,599	(821)	778	1,579	(721)	858
<b>Total</b>	<b>\$ 96,036</b>	<b>\$ (33,662)</b>	<b>\$ 62,374</b>	<b>\$ 75,903</b>	<b>\$ (25,557)</b>	<b>\$ 50,346</b>

Amortization of deferred recoverable costs included in operating expenses was \$1,463 (nine months ended September 30, 2004 – \$1,048).

## 6. Amounts Receivable

Amounts receivable are net of credit adjustments of \$5,220 (December 31, 2004 – \$2,627). Total U.S. dollar denominated amounts receivable relating to self-sustaining foreign operations are US\$350 (December 31, 2004 – US\$430). Amounts receivable include straight-line rents and deferred free rents receivable of \$9,261 (December 31, 2004 – \$6,248).

## 7. Prepaid Expenses and Other Assets

	September 30, 2005	December 31, 2004
Prepaid expenses	<b>\$ 6,652</b>	\$ 4,961
Mezzanine loan	<b>12,331</b>	11,052
Vendor loan	<b>3,450</b>	3,465
Deposits	<b>208</b>	458
Restricted cash	<b>3,442</b>	12,991
<b>Total</b>	<b>\$ 26,083</b>	\$ 32,927

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 bears interest at 11% annually and 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 interest has been received. The loan is subordinate to all third-party debt of the borrower.

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

Restricted cash primarily represents tenant rent deposits and cash held as security for certain mortgages and bank loans drawn on a line of credit.

The Trust has entered into a mortgage loan purchase agreement with a lender of the ACCW Joint Venture 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 delivery of a default notice by the lender and April 30, 2007. The loan balance at September 30, 2005 is \$14,201.

## 8. Intangibles

Intangible Assets	September 30, 2005			December 31, 2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Value of above market rent leases	<b>\$ 4,738</b>	<b>\$ (1,006)</b>	<b>\$ 3,732</b>	\$ 3,358	\$ (508)	\$ 2,850
Value of in-place leases	<b>26,190</b>	<b>(4,830)</b>	<b>21,360</b>	13,060	(2,609)	10,451
Lease origination costs	<b>7,266</b>	<b>(1,296)</b>	<b>5,970</b>	4,312	(550)	3,762
Value of tenant relationships	<b>25,061</b>	<b>(2,621)</b>	<b>22,440</b>	14,348	(1,114)	13,234
<b>Total</b>	<b>\$ 63,255</b>	<b>\$ (9,753)</b>	<b>\$ 53,502</b>	\$ 35,078	\$ (4,781)	\$ 30,297

Intangible Liabilities	September 30, 2005			December 31, 2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Value of below market rent leases	<b>\$ 7,424</b>	<b>\$ (1,330)</b>	<b>\$ 6,094</b>	\$ 3,877	\$ (638)	\$ 3,239

## 9. Debt

	September 30, 2005	December 31, 2004
Mortgages	<b>\$ 722,465</b>	\$ 591,304
Convertible debentures	<b>171,324</b>	74,430
Term debt	<b>20,870</b>	21,437
Demand revolving credit facility	<b>21,577</b>	–
Demand non-revolving credit facility	<b>–</b>	5,984
<b>Total</b>	<b>\$ 936,236</b>	\$ 693,155

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 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 that 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 balance sheet as debt of \$74,400 and equity of \$600. Issue costs of \$3,568 and the discount related to the offering are amortized to interest expense over ten years.

A demand revolving credit facility is available up to a formula-based maximum not to exceed \$80,000, bearing interest generally at the bank prime rate (4.50% as at September 30, 2005) plus 0.75% or bankers' acceptance rates. The facility 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 September 30, 2005, the maximum amount available under this facility was \$78,933, of which \$208 was utilized in the form of letters of guarantee (December 31, 2004 – \$2,076) and \$21,577 was utilized to fund acquisitions and operations (December 31, 2004 – \$nil). As at September 30, 2005, the amount still available under this facility was \$56,033. An additional operating facility of \$20,000 was also available for a three month period ending September 15, 2005. This facility was not utilized during the quarter. The demand non-revolving credit facility, a U.S. dollar term loan credit facility, was discharged on May 6, 2005.

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, 2005	December 31, 2004		September 30, 2005	December 31, 2004
<b>Fixed rate</b>					
Mortgages	<b>6.22%</b>	6.70%	<b>2005 – 2015</b>	<b>\$ 722,465</b>	\$ 591,304
Term debt	<b>6.66%</b>	6.59%	<b>2006 – 2008</b>	<b>310</b>	432
Convertible debenture	<b>6.19%</b>	6.63%	<b>2014 – 2015</b>	<b>171,324</b>	74,430
Total fixed rate	<b>6.22%</b>	6.69%		<b>894,099</b>	666,166
<b>Variable rate</b>					
Term debt	<b>5.11%</b>	4.74%	<b>2007</b>	<b>20,560</b>	21,005
Demand revolving credit facility	<b>5.25%</b>	–	<b>2005</b>	<b>21,577</b>	–
Demand non-revolving credit facility	–	6.00%	–	–	5,984
Total variable rate	<b>5.18%</b>	5.02%		<b>42,137</b>	26,989
<b>Total debt</b>	<b>6.17%</b>	6.62%		<b>\$ 936,236</b>	\$ 693,155

The variable rate term debt outstanding at September 30, 2005 bears interest generally at the rate of one month bankers' acceptance plus 2.4% (December 31, 2004 – plus 2.15%). At September 30, 2005, the rate of one month bankers' acceptance was 2.71% (December 31, 2004 – 2.59%).

The scheduled principal repayments and debt maturities are as follows:

Years Ending December 31,	Mortgages	Term Debt	Convertible Debentures	Demand Revolving Credit Facility	Total
2005	\$ 11,918	\$ 93	\$ –	\$ 21,577	\$ 33,588
2006	66,211	430	–	–	66,641
2007	30,776	20,286	–	–	51,062
2008	108,282	61	–	–	108,343
2009	130,402	–	–	–	130,402
2010 and thereafter	374,876	–	171,324	–	546,200
<b>Total</b>	<b>\$ 722,465</b>	<b>\$ 20,870</b>	<b>\$ 171,324</b>	<b>\$ 21,577</b>	<b>\$ 936,236</b>

Mortgages include an \$8,152 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 \$1,651 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.

## 10. Amounts Payable and Accrued Liabilities

	September 30, 2005	December 31, 2004
Trade payables	\$ 2,889	\$ 1,094
Accrued liabilities and other payables	14,596	13,583
Accrued interest	5,108	3,183
Deposits	6,662	4,908
Rent received in advance	1,829	1,860
<b>Total</b>	<b>\$ 31,084</b>	<b>\$ 24,628</b>

Total U.S. dollar denominated amounts payable and accrued liabilities relating to self-sustaining foreign operations at September 30, 2005 are US\$641 (December 31, 2004 – US\$598).

## 11. Distributions

The following table sets out distributions for the nine months ended September 30, 2005.

	REIT Units, Series A	LP Class B Units, Series 1	Total
Paid in cash	\$ 23,791	\$ –	\$ 23,791
Paid by way of reinvestment in REIT units, Series A	4,205	3,174	7,379
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 September 30, 2005	3,174	1,587	4,761
<b>Total</b>	<b>\$ 28,081</b>	<b>\$ 14,044</b>	<b>\$ 42,125</b>

The amount payable at September 30, 2005 was satisfied on October 15, 2005 by way of \$2,554 in cash and \$2,205 by way of 87,496 REIT Units, Series A. Included in the total distributions is the 4% bonus distribution in the amount of \$629 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

	September 30, 2005		December 31, 2004	
	Number of Units	Amount	Number of Units	Amount
REIT Units, Series A	<b>17,204,683</b>	<b>\$ 309,113</b>	16,819,963	\$ 318,545
LP Class B Units, Series 1	<b>8,337,365</b>	<b>147,449</b>	7,924,084	148,256
<b>Total</b>	<b>25,542,048</b>	<b>\$ 456,562</b>	24,744,047	\$ 466,801

### DPLP Units and Non-Controlling Interest

	LP Class B Units, Series 1		Cumulative Foreign Currency Translation Adjustment	Total
	Number of Units	Amount		
<b>Non-controlling interest, January 1, 2005</b>	7,924,084	\$ 149,728	\$ (1,472)	\$ 148,256
Income from continuing operations	–	3,692	–	3,692
Income from discontinued operations	–	112	–	112
Distributions paid	–	(12,457)	–	(12,457)
Distributions payable	–	(1,587)	–	(1,587)
Distribution Reinvestment Plan	413,281	10,791	–	10,791
Impact of dilution	–	(434)	–	(434)
Change in foreign currency translation adjustment	–	–	(924)	(924)
<b>Non-controlling interest, September 30, 2005</b>	<b>8,337,365</b>	<b>\$ 149,845</b>	<b>\$ (2,396)</b>	<b>\$ 147,449</b>

Emerging Issues Committee Abstract of Issues Discussed No.151, Exchangeable Securities Issued by Subsidiaries of Income Trusts (“EIC-151”) applies to all financial statements issued after January 19, 2005 and must be applied on a retroactive basis. 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. Adoption of EIC-151 had the effect as at and for the nine-month period ended September 30, 2004 of recognizing non-controlling interest in the balance sheet of \$143,981, recognizing a dilution gain of \$1,183, income attributable to non-controlling interest in continuing operations of \$5,367 net of a loss of \$5,056 from discontinued operations, with no other significant effect on the balance sheet and statement of net income.

### Distribution Reinvestment and Unit Purchase Plan (“DRIP”)

For the nine months ended September 30, 2005, 279,185 REIT Units, Series A and 413,281 LP Class B Units, Series 1 were issued under the DRIP for \$7,379 and \$10,791, respectively. As a result of full participation of the LP Class B Units, Series 1 in the DRIP, the Trust’s effective ownership in DPLP has been diluted. Accordingly, the Trust recognized a dilution gain of \$1,594 during the nine months ended September 30, 2005 (September 30, 2004 – \$1,183).

### Unit Purchase Plan

For the nine months ended September 30, 2005, 7,831 REIT Units, Series A were issued under the Unit Purchase Plan for \$210.

### Conversion of 6.5% Debenture

During the nine months ended September 30, 2005, the Trust issued 81,040 REIT Units, Series A upon conversion of \$2,026 principal amount of the 6.5% Debenture.

### Deferred Unit Incentive Plan

During the nine months ended September 30, 2005, \$587 of compensation expense was recorded (September 30, 2004 – \$318) 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, 2005	<b>\$ 22.70</b>	<b>151,143</b>	<b>12,542</b>	<b>163,685</b>
Granted during the period	–	–	<b>10,464</b>	<b>10,464</b>
Cancelled	<b>21.35</b>	<b>(400)</b>	<b>(52)</b>	<b>(452)</b>
Issuance of REIT Units, Series A on vesting	<b>22.81</b>	<b>(14,656)</b>	<b>(2,108)</b>	<b>(16,764)</b>
Fractional units paid in cash	–	<b>(21)</b>	<b>(3)</b>	<b>(24)</b>
<b>Outstanding and payable at September 30, 2005</b>	<b>\$ 22.72</b>	<b>136,066</b>	<b>20,843</b>	<b>156,909</b>
<b>Vested and not issued at September 30, 2005</b>	<b>\$ 22.60</b>	<b>25,133</b>	<b>3,745</b>	<b>28,878</b>

## 13. 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	
	2005	2004	2005	2004
Interest expense incurred, at stated rate of debt	\$ 14,522	\$ 11,748	\$ 40,092	\$ 32,064
Amortization of deferred financing costs	440	306	1,137	663
Marked-to-market rate adjustment	(426)	(315)	(1,595)	(1,123)
Interest capitalized	(87)	–	(166)	–
<b>Interest expense</b>	<b>\$ 14,449</b>	<b>\$ 11,739</b>	<b>\$ 39,468</b>	<b>\$ 31,604</b>

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

## 14. Income per Unit

The weighted average number of units outstanding was as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2005	2004	2005	2004
REIT Units, Series A	17,041,766	16,753,593	16,919,440	15,892,695
Vested Deferred Trust Units	17,761	–	15,378	–
Total weighted-average number of units outstanding for basic income (loss) per unit amounts	17,059,527	16,753,593	16,934,818	15,892,695
Add incremental units:				
LP Class B Units, Series 1	8,328,442	7,657,481	8,178,782	7,476,161
Deferred Trust Units	22,938	27,662	21,482	28,214
Income Deferred Trust Units	17,839	7,446	14,992	5,370
<b>Total weighted average number of units outstanding for diluted income (loss) per unit amounts</b>	<b>25,428,746</b>	<b>24,446,182</b>	<b>25,150,074</b>	<b>23,402,440</b>

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2005	2004	2005	2004
Income before discontinued operations for basic income per unit amounts	\$ 2,226	\$ 4,651	\$ 9,089	\$ 12,541
Add: Income attributable to non-controlling interest	987	1,961	3,692	5,367
Depreciation expense	62	–	164	–
Deduct: Dilution gain	(269)	(365)	(1,594)	(1,183)
<b>Income before discontinued operations for diluted per unit amounts</b>	<b>\$ 3,006</b>	<b>\$ 6,247</b>	<b>\$ 11,351</b>	<b>\$ 16,725</b>

The 5,217,592 incremental units of an assumed conversion of both debenture issues for the nine months ended September 30, 2005 (September 30, 2004 – 1,116,788) have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

## 15. Segmented Information

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

### A. By Activity

For the Three Months Ended September 30, 2005	Office	Industrial	Retail	Segment Total	Discontinued Operations	Total
<b>Operations</b>						
Revenues	\$ 37,449	\$ 17,779	\$ 2,800	\$ 58,028	\$ (2)	\$ 58,030
Operating expenses	(17,886)	(6,147)	(1,534)	(25,567)	(2)	(25,565)
Net operating income	19,563	11,632	1,266	32,461	(4)	32,465
Depreciation of rental properties	(4,912)	(2,653)	(488)	(8,053)	–	(8,053)
Amortization of deferred leasing costs and intangibles	(3,686)	(1,796)	(283)	(5,765)	–	(5,765)
<b>Segment income</b>	<b>\$ 10,965</b>	<b>\$ 7,183</b>	<b>\$ 495</b>	<b>\$ 18,643</b>	<b>\$ (4)</b>	<b>18,647</b>
Interest expense						(14,449)
General and administrative expenses						(1,362)
Interest and fee income, net						411
Dilution gain						269
Income taxes						(303)
Income attributable to non-controlling interest						(987)
Discontinued operations						(3)
<b>Net income</b>						<b>\$ 2,223</b>
<b>Segment rental properties</b>	<b>\$ 760,817</b>	<b>\$ 457,920</b>	<b>\$ 63,431</b>	<b>\$ 1,282,168</b>	<b>\$ –</b>	<b>\$ 1,282,168</b>
<b>Capital expenditures</b>						
Investment in rental properties	\$ (969)	\$ (502)	\$ (248)	\$ (1,719)		
Acquisition of rental properties	(33,184)	(16,908)	–	(50,092)		
Deferred leasing costs	(937)	(1,141)	(288)	(2,366)		
<b>Total capital expenditures</b>	<b>\$ (35,090)</b>	<b>\$ (18,551)</b>	<b>\$ (536)</b>	<b>\$ (54,177)</b>		

For the Three Months Ended September 30, 2004	Office	Industrial	Retail	Segment Total	Discontinued Operations	Total
<b>Operations</b>						
Revenues	\$ 29,690	\$ 15,268	\$ 5,070	\$ 50,028	\$ 2,045	\$ 47,983
Operating expenses	(14,023)	(5,233)	(2,741)	(21,997)	(998)	(20,999)
Net operating income	15,667	10,035	2,329	28,031	1,047	26,984
Depreciation of rental properties	(3,842)	(2,258)	(505)	(6,605)	(13)	(6,592)
Amortization of deferred leasing costs and intangibles	(1,712)	(1,837)	(215)	(3,764)	(3)	(3,761)
<b>Segment income</b>	<b>\$ 10,113</b>	<b>\$ 5,940</b>	<b>\$ 1,609</b>	<b>\$ 17,662</b>	<b>\$ 1,031</b>	<b>16,631</b>
Interest expense						(11,739)
General and administrative expenses						(1,145)
Interest and fee income, net						583
Dilution gain						365
Income taxes						1,917
Income attributable to non-controlling interest						(1,961)
Discontinued operations						724
<b>Net income</b>						<b>\$ 5,375</b>
<b>Segment rental properties</b>	<b>\$ 596,434</b>	<b>\$ 396,774</b>	<b>\$ 108,384</b>	<b>\$ 1,101,592</b>	<b>\$ (38,630)</b>	<b>\$ 1,062,962</b>
<b>Capital expenditures</b>						
Investment in rental properties	\$ (90)	\$ (909)	\$ (101)	\$ (1,100)		
Acquisition of rental properties	(44)	(16)	–	(60)		
Deferred leasing costs	(4,772)	(1,488)	(55)	(6,315)		
<b>Total capital expenditures</b>	<b>\$ (4,906)</b>	<b>\$ (2,413)</b>	<b>\$ (156)</b>	<b>\$ (7,475)</b>		

For the Nine Months Ended September 30, 2005	Office	Industrial	Retail	Segment Total	Discontinued Operations	Total
<b>Operations</b>						
Revenues	\$ 103,745	\$ 49,832	\$ 8,369	\$ 161,946	\$ (255)	\$ 162,201
Operating expenses	(50,742)	(17,585)	(4,350)	(72,677)	390	(73,067)
Net operating income	53,003	32,247	4,019	89,269	135	89,134
Depreciation of rental properties	(12,722)	(7,437)	(1,467)	(21,626)	–	(21,626)
Amortization of deferred leasing costs and intangibles	(8,395)	(4,985)	(687)	(14,067)	–	(14,067)
<b>Segment income</b>	<b>\$ 31,886</b>	<b>\$ 19,825</b>	<b>\$ 1,865</b>	<b>\$ 53,576</b>	<b>\$ 135</b>	<b>53,441</b>
Interest expense						(39,468)
General and administrative expenses						(3,768)
Interest and fee income, net						1,748
Dilution gain						1,594
Income taxes						(766)
Income attributable to non-controlling interest						(3,692)
Discontinued operations						235
<b>Net income</b>						<b>\$ 9,324</b>
<b>Capital expenditures</b>						
Investment in rental properties	\$ (1,993)	\$ (1,834)	\$ (297)	\$ (4,124)		
Acquisition of rental properties	(157,845)	(62,658)	–	(220,503)		
Deferred leasing costs	(4,015)	(3,169)	(519)	(7,703)		
<b>Total capital expenditures</b>	<b>\$ (163,853)</b>	<b>\$ (67,661)</b>	<b>\$ (816)</b>	<b>\$ (232,330)</b>		

For the Nine Months Ended September 30, 2004	Office	Industrial	Retail	Segment Total	Discontinued Operations	Total
<b>Operations</b>						
Revenues	\$ 85,187	\$ 42,910	\$ 15,352	\$ 143,449	\$ 6,367	\$ 137,082
Operating expenses	(41,376)	(14,991)	(8,082)	(64,449)	(2,973)	(61,476)
Net operating income	43,811	27,919	7,270	79,000	3,394	75,606
Depreciation of rental properties	(10,912)	(6,406)	(2,261)	(19,579)	(813)	(18,766)
Amortization of deferred leasing costs and intangibles	(3,826)	(4,579)	(756)	(9,161)	(270)	(8,891)
<b>Segment income</b>	<b>\$ 29,073</b>	<b>\$ 16,934</b>	<b>\$ 4,253</b>	<b>\$ 50,260</b>	<b>\$ 2,311</b>	<b>47,949</b>
Interest expense						(31,604)
General and administrative expenses						(3,302)
Interest and fee income, net						1,595
Gain on disposal of rental property						166
Dilution gain						1,183
Income taxes						1,921
Income attributable to non-controlling interest						(5,367)
Discontinued operations						(11,215)
<b>Net income</b>						<b>\$ 1,326</b>
<b>Capital expenditures</b>						
Investment in rental properties	\$ (535)	\$ (3,696)	\$ (1,520)	\$ (5,751)		
Acquisition of rental properties	(71,519)	(82,471)	–	(153,990)		
Deferred leasing costs	(6,814)	(2,834)	(1,332)	(10,980)		
<b>Total capital expenditures</b>	<b>\$ (78,868)</b>	<b>\$ (89,001)</b>	<b>\$ (2,852)</b>	<b>\$ (170,721)</b>		

**B. By Country**

For the Three Months Ended September 30, 2005

	Canada	U.S.	Segment Total
<b>Operations</b>			
Revenues	\$ 55,847	\$ 2,181	\$ 58,028
Operating expenses	(24,343)	(1,224)	(25,567)
Net operating income	31,504	957	32,461
Depreciation of rental properties	(7,650)	(403)	(8,053)
Amortization of deferred leasing costs and intangibles	(5,681)	(84)	(5,765)
<b>Segment income</b>	<b>\$ 18,173</b>	<b>\$ 470</b>	<b>\$ 18,643</b>
<b>Segment rental properties</b>	<b>\$ 1,232,053</b>	<b>\$ 50,115</b>	<b>\$ 1,282,168</b>
<b>Capital expenditures</b>			
Investment in rental properties	\$ (1,487)	\$ (232)	\$ (1,719)
Acquisition of rental properties	(50,092)	-	(50,092)
Deferred leasing costs	(2,149)	(217)	(2,366)
<b>Total capital expenditures</b>	<b>\$ (53,728)</b>	<b>\$ (449)</b>	<b>\$ (54,177)</b>

For the Three Months Ended September 30, 2004

	Canada	U.S.	Segment Total
<b>Operations</b>			
Revenues	\$ 47,580	\$ 2,448	\$ 50,028
Operating expenses	(20,552)	(1,445)	(21,997)
Net operating income	27,028	1,003	28,031
Depreciation of rental properties	(6,183)	(422)	(6,605)
Amortization of deferred leasing costs and intangibles	(3,702)	(62)	(3,764)
<b>Segment income</b>	<b>\$ 17,143</b>	<b>\$ 519</b>	<b>\$ 17,662</b>
<b>Segment rental properties</b>	<b>\$ 1,045,442</b>	<b>\$ 56,150</b>	<b>\$ 1,101,592</b>
<b>Capital expenditures</b>			
Investment in rental properties	\$ (1,011)	\$ (89)	\$ (1,100)
Acquisition of rental properties	(60)	-	(60)
Deferred leasing costs	(6,293)	(22)	(6,315)
<b>Total capital expenditures</b>	<b>\$ (7,364)</b>	<b>\$ (111)</b>	<b>\$ (7,475)</b>

For the Nine Months Ended September 30, 2005

	Canada	U.S.	Segment Total
<b>Operations</b>			
Revenues	\$ 155,272	\$ 6,674	\$ 161,946
Operating expenses	(68,963)	(3,714)	(72,677)
Net operating income	86,309	2,960	89,269
Depreciation of rental properties	(20,414)	(1,212)	(21,626)
Amortization of deferred leasing costs and intangibles	(13,847)	(220)	(14,067)
<b>Segment income</b>	<b>\$ 52,048</b>	<b>\$ 1,528</b>	<b>\$ 53,576</b>
<b>Capital expenditures</b>			
Investment in rental properties	\$ (3,884)	\$ (240)	\$ (4,124)
Acquisition of rental properties	(220,503)	-	(220,503)
Deferred leasing costs	(7,344)	(359)	(7,703)
<b>Total capital expenditures</b>	<b>\$ (231,731)</b>	<b>\$ (599)</b>	<b>\$ (232,330)</b>

For the Nine Months Ended September 30, 2004

Canada

U.S.

Segment Total

<b>Operations</b>						
Revenues	\$	135,918	\$	7,531	\$	143,449
Operating expenses		(60,234)		(4,215)		(64,449)
Net operating income		75,684		3,316		79,000
Depreciation of rental properties		(18,291)		(1,288)		(19,579)
Amortization of deferred leasing costs and intangibles		(8,938)		(223)		(9,161)
<b>Segment income</b>	\$	48,455	\$	1,805	\$	50,260
<b>Capital expenditures</b>						
Investment in rental properties	\$	(4,250)	\$	(1,501)	\$	(5,751)
Acquisition of rental properties		(153,990)		–		(153,990)
Deferred leasing costs		(10,927)		(53)		(10,980)
<b>Total capital expenditures</b>	\$	(169,167)	\$	(1,554)	\$	(170,721)

## 16. Related Party Transactions and Arrangements

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

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

Fees Received	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2005	2004	2005	2004
Rent supplement received by Dundee REIT under the Management Agreement (included in rental properties revenue)	\$ 486	\$ 814	\$ 1,814	\$ 2,690
Fees and rental income received by Dundee REIT under the DRC Services Agreement (included in operating expenses)	\$ 130	\$ 113	\$ 411	\$ 338
<b>Fees Paid</b>				
Fees paid by Dundee REIT under the Management Agreement				
Management fees, included in rental properties' operating expenses	\$ 939	\$ 769	\$ 2,617	\$ 2,287
Construction fees, capitalized to the related assets	\$ 101	\$ 111	\$ 251	\$ 290
Lease administration fees, included in deferred leasing costs	\$ 214	\$ 382	\$ 591	\$ 697
Fees paid by Dundee REIT under the Services Agreement				
Acquisition and financing fees, capitalized to the related assets	\$ 149	\$ 72	\$ 416	\$ 373

Included in amounts receivable at September 30, 2005 is \$189 related to the Management and Services Agreements and DRC Services Agreement (December 31, 2004 – \$117). Included in accrued liabilities and other payables at September 30, 2005 is \$381 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.

## 17. 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 disposition.
- 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 disposition.
- 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 disposition.
- 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 related to the properties. A gain of \$217 was recognized on the sale.

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2005	2004	2005	2004
Revenues	\$ (2)	\$ 2,045	\$ (255)	\$ 6,367
Operating expenses	2	998	(390)	2,973
Net operating income	(4)	1,047	135	3,394
Interest	-	418	5	1,703
Depreciation of rental properties	-	13	-	813
Amortization of deferred leasing costs	-	3	-	270
	-	434	5	2,786
Provision for impairments of value of rental property	-	-	-	(19,729)
Gain on sale of rental property	-	442	217	2,850
Income (loss) from discontinued operations before non-controlling interest	(4)	1,055	347	(16,271)
Income (loss) attributable to non-controlling interest	(1)	331	112	(5,056)
<b>Income (loss) from discontinued operations</b>	<b>\$ (3)</b>	<b>\$ 724</b>	<b>\$ 235</b>	<b>\$ (11,215)</b>

The following are the assets and liabilities of the properties classified as discontinued operations at September 30, 2005:

	September 30, 2005
<b>Assets</b>	
Accounts receivable	\$ 77
Prepaid expenses and other assets	2
	<b>\$ 79</b>
<b>Liabilities</b>	
Amounts payable and accrued liabilities	\$ 79

## 18. Commitments and Contingencies

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

### Purchase and Other Obligations

Through the 2004 acquisition of the 13-building portfolio in Montréal, the Trust has acquired leases relating to three buildings in the portfolio that allow the tenant, 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 conditional contracts to acquire a further \$37,383 of rental properties.

## 19. Supplementary Cash Flow Information

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2005	2004	2005	2004
(Increase) decrease in accounts receivable	\$ (556)	\$ 555	\$ 2,360	\$ 3,258
(Increase) decrease in deferred costs (other than leasing costs)	(236)	(145)	322	(160)
(Increase) decrease in prepaid expenses and other assets (excluding restricted cash and mezzanine loan)	(88)	307	(2,242)	64
Increase in accounts payable and accrued liabilities (excluding leasing costs)	2,146	550	8,482	2,543
Increase (decrease) in accounts payable relating to leasing costs	(960)	1,477	(2,630)	1,857
<b>Change in non-cash working capital</b>	<b>\$ 306</b>	<b>\$ 2,744</b>	<b>\$ 6,292</b>	<b>\$ 7,562</b>

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

Interest	\$ 14,296	\$ 10,124	\$ 38,169	\$ 30,144
Income and large corporations taxes	\$ 18	\$ 119	\$ 18	\$ 119

## 20. Subsequent Events

On October 3, 2005, the Trust entered into an agreement to sell Simcoe Town Centre, a 128,000 square foot retail property, for a price of approximately \$6,165. The sale is scheduled to close November 15, 2005. The Trust will record a loss on the sale of approximately \$3,800.



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