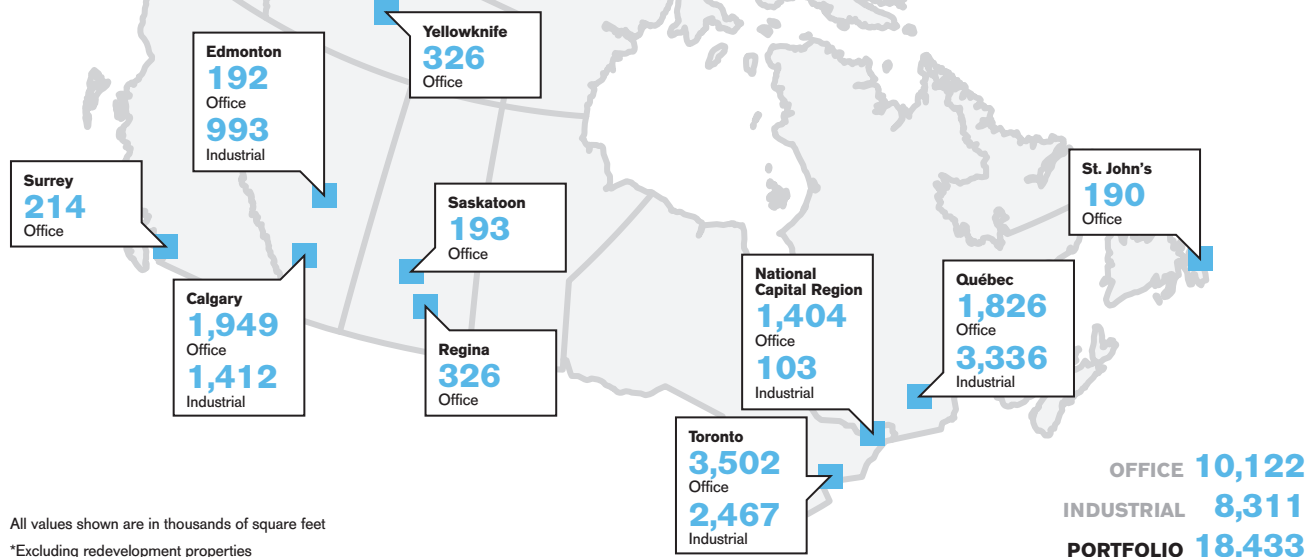


DUNDEE REIT 2006 Annual Report



# Presence

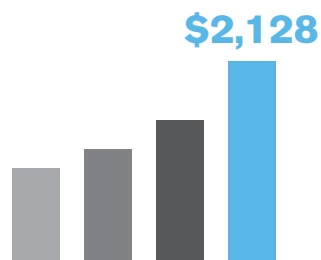
# COAST-TO-COAST PRESENCE\*



## Total assets

In millions of dollars

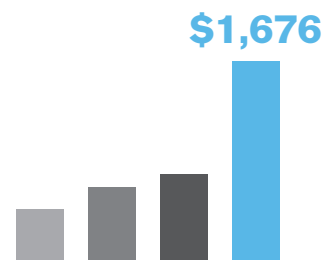
03 \$ 997  
04 \$ 1,200  
05 \$ 1,508  
06 \$ 2,128



## Market cap

In millions of dollars

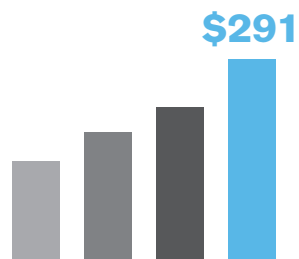
03 \$ 452  
04 \$ 633  
05 \$ 740  
06 \$ 1,676



## Total revenue

In millions of dollars

03 \$ 145  
04 \$ 187  
05 \$ 223  
06 \$ 291



## Enterprise value

**\$2.9B**

# Presence

*Confident in our strategy. National in scale. Assured of our ability to identify opportunities, and then realize them. Proven leader in customer service. Committed to creating exceptional unitholder value. Recognized for our performance and our potential. In a market where only the best stand out, Dundee REIT has presence.*

Dundee Real Estate Investment Trust (“Dundee REIT”; TSX: D.UN) is an unincorporated, open-ended real estate investment trust. We own approximately 19 million square feet of high-quality, affordable office and industrial assets across Canada.



**MARIO BARRAFATO**  
Senior Vice President and Chief Financial Officer

**MICHAEL J. COOPER**  
Vice Chairman and Chief Executive Officer

**MICHAEL KNOWLTON**  
President and Chief Operating Officer

### *Achievement*

When 2006 ended, Dundee REIT was larger, stronger and more valuable than when it started. Here are some of the year's accomplishments.

### **DECEMBER 31, 2005**

Unit price: \$25.70

Market cap: \$740 million

Total enterprise value: \$1.7 billion

# Letter to unitholders

*Solid growth in each of our performance indicators confirms the fundamental strength of our business. We are very pleased that the disciplined execution of our growth strategy is paying off and that our performance is being recognized. The past year was one in which we reached many milestones – both operationally and in the capital markets. All of this translated into a year of exceptional value creation for unitholders.*

We have been very successful in growing Dundee REIT through acquisitions. Throughout the year we completed transactions totalling nearly \$600 million. The properties acquired have helped improve our portfolio, increase diversification and fuel our financial performance including, most importantly, adjusted funds from operations (“AFFO”). Another valuable outcome of our acquisitions strategy is the larger component of office product in our portfolio. Additions to our Calgary portfolio have led to an increased weighting of nearly 40% of net operating income being generated by properties across Western Canada and have provided us with great exposure

to the rising rental rate environment in Calgary. Entering into new markets has also proven valuable with the properties in Yellowknife providing a return on equity in excess of our expectations.

Overall, our properties are performing very well. Total occupancy remains strong at 96.4% and rental rates continue to edge upwards, presently averaging \$10.00 per square foot. Occupancy across our office properties increased to 97.0% from 96.3% last year while our industrial occupancy softened slightly to 95.6% from 96.2%. With the evolution of our portfolio, our office assets generated 77% of our net operating income in the fourth quarter and helped

## **JANUARY 2006**

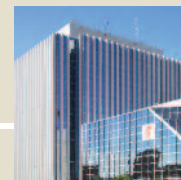
Acquired 412,000 square feet of office and industrial properties in Edmonton, Toronto and Québec

## **APRIL 2006**

Raised \$70 million, issued 2.52 million units

## **MAY 2006**

Completed Princeton Portfolio acquisition, adding 530,000 square feet to our Western Canada portfolio  
Internalized the property management function



drive an impressive \$4.4 million or 5% increase in comparative net operating income over the prior year. This is the sixth consecutive quarter in which we produced comparative property growth.

Funds from operations continues to grow, indicating an accretive acquisition program and the overall strength of our business. Driving the 47% increase in funds from operations was additional revenue generated by acquisitions, strong occupancy across our office portfolio, rising rental rates and a reduction in our weighted average interest rate. And, despite the growth in our units outstanding, funds from operations per unit increased by 8%.

Adjusted funds from operations is a measure used to evaluate the sustainability of distributions, the goal being to produce AFFO in excess of the distributions declared. We believe that in the second half of 2006 our AFFO exceeded declared distributions by a significant margin. Maintaining a careful balance between the purchase price of acquisitions, the current and anticipated revenue generated by these properties and the cost of equity used to complete the acquisitions contributed to the 14% improvement in AFFO per unit over the prior year. Also contributing to the improvement was the strong performance of our property management services, which were fully internalized in May.

We continued to take advantage of low interest rates during 2006. We assumed \$103 million of debt related to acquisitions with an average interest rate of 5.35% and secured \$297 million in new debt on existing and acquired assets at a rate of 5.56%. The overall result is that our cost of debt has declined to 5.95% from 7.19% at June 30, 2003. Debt-to-gross book value has been reduced from a high of 62% in the third quarter of 2005 to 51% at the end of 2006. Although the decrease in debt may dampen growth in AFFO, it provides us with downside protection, more flexibility in the future and, ultimately, more sustainability to our cash flow.

We are very pleased to see our accomplishments recognized by the capital markets as reflected by the eager participation in our equity offerings, the appreciation in our unit price and our inclusion in the S&P/TSX Composite Index. Throughout 2006, we completed three equity offerings totalling \$320 million, all of which were well received by investors. Our market capitalization increased to \$1.7 billion from \$740 million at the end of 2005. And, our unit price increased to \$38.65 from \$25.70. Including distributions paid throughout the year, the

## One-year unitholder return

# 59%

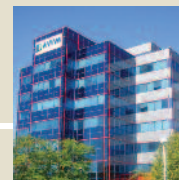


### JUNE 2006

Raised \$100 million, issued 3.56 million units  
Completed the Calgary Portfolio acquisition, adding 822,000 square feet to our office portfolio

### AUGUST 2006

Unit price rises above \$30



### SEPTEMBER 2006

AFFO reaches 55.3¢ per unit, exceeding declared distributions  
Acquired Aviva Corporate Centre in Toronto

overall unitholder return for 2006 was 59% – the highest return of all Canadian commercial property REITs.

As a result of ongoing merger and acquisition activity in our sector, the number of real estate investment trusts is dwindling. The desirability of real estate in Canada continues to increase, with many sources of capital eager for exposure to the Canadian real estate market. Any way you look at this, it is positive for Dundee REIT. Our team works very well together and is managing our growth and the changes in the market with expertise and dedication. Dundee REIT's reputation in the marketplace is very good and our unit price reflects our progress. With fewer options for exposure to the national office and industrial markets and with the elimination of competition from business trusts because of the new legislation, our units are very desirable.

Our rapid growth continues in 2007. During the first two months of 2007, we acquired two office buildings in Toronto and an office building in B.C. for a total of approximately \$125.4 million. And, we currently have under contract a 543,000 square foot office portfolio in Calgary and 2,132,000 square feet of office and industrial properties in Toronto for a total of approximately \$424.3 million. To help fund these acquisitions we completed an equity offering totalling \$151 million.

Our interests are aligned with those of our investors. Our senior officers and our Board of Trustees hold a collective 4% interest in Dundee REIT on a diluted basis. A significant number of our employees are also unitholders. In addition to our individual commitments to a job well done and to improving our business every day, we have a vested interest in the success of Dundee REIT.

The foundation of our business is our properties. Maintaining the buildings and keeping them full are the basic elements to achieving any degree of success. It's what we do beyond the basics that makes the difference. How tenant relationships are managed, how growth is pursued, how quickly and efficiently that growth is integrated into our operations, how our business is financed – and how growth, in particular, is funded. We are well positioned with a healthy balance sheet and a relatively low level of debt. With internal growth and the returns provided by acquired assets, we expect continued growth across our business in 2007.

**MICHAEL J. COOPER** (signed)

Vice Chairman and Chief Executive Officer

#### NOVEMBER 2006

Acquired ACCW joint venture development properties, adding 357,000 square feet to our office portfolio

#### DECEMBER 2006

Raised \$150 million, issued 4.11 million units  
Inclusion in the S&P/TSX Composite Index

#### DECEMBER 2006

Unit price: \$38.65  
Market cap: \$1.7 billion  
Total enterprise value: \$2.9 billion

# Vision

*Vision is the ability to see where you are and where you want to go. Our vision is to be Canada's leading provider of affordable business premises and the investment of choice for those looking to enjoy the benefits of owning commercial real estate.*



Toronto, State Street Financial Centre

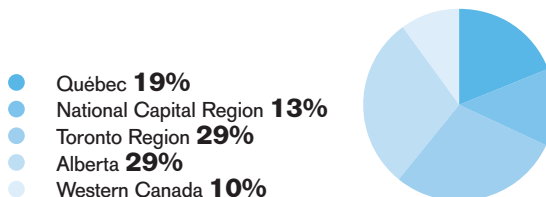
## Funds from operations per unit



\*2003 is an annualized amount.

## Net operating income by region

Three months ended December 31, 2006



To achieve this vision, we focus on continually improving the value of our business through sound financial and operational management, growing our portfolio through accretive acquisitions, providing sustainable cash distributions, and increasing distributions based on our performance. It is a simple strategy, and certainly not unique to us, but our execution and delivery set us apart.

From the start, we have worked to enhance our overall worth – increasing our total enterprise value from \$836 million in June 2003 to \$2.9 billion at the end of 2006. We have established a reputation for

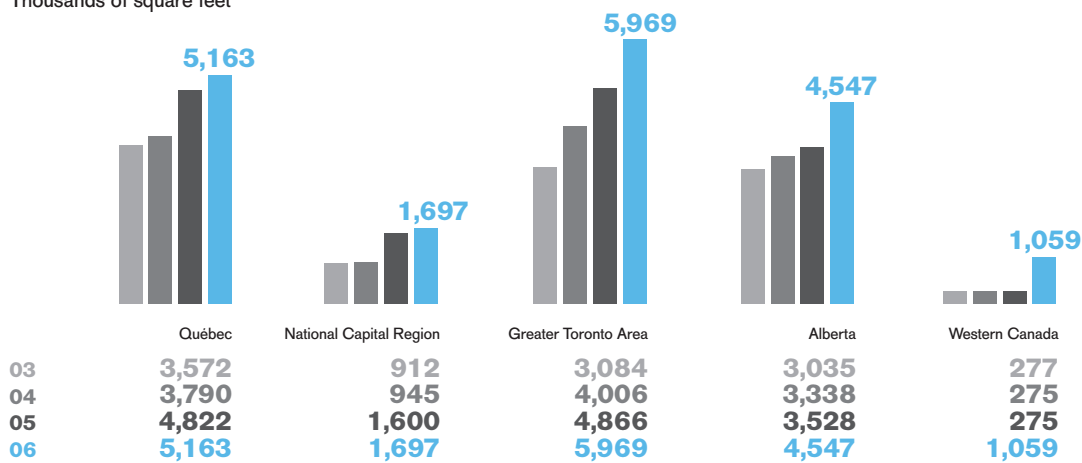
being able to see where the market is going and identify opportunities. And, while we have grown, we have remained nimble and flexible, in order to act quickly on those opportunities and stay ahead of the competition.

When acquiring property, we have been able to adapt to changing circumstances: in some cases, this resulted in our sourcing and acquiring numerous individual assets; at other times, we focused our resources on larger portfolio acquisitions. The relationships we have built and the reputation we have earned for being efficient,



## PORTFOLIO GROWTH

Thousands of square feet



By the end of 2006, Dundee REIT's portfolio had grown to almost 19 million square feet. As you can see, our growth has been focused primarily in Toronto, Alberta and Western Canada. Acquisition highlights in 2006 include a six-building office portfolio in downtown and suburban Calgary, the Princeton six-building office and industrial portfolio in Western Canada, and an office portfolio at the Airport Corporate Centre West in suburban Toronto.



Calgary, 3250 Sunridge Way NE

## Enterprise value

# \$2.9B

diligent and true to our word has made it easier to find opportunities, and has also brought deals to our doorstep. Consequently, in 3½ years as a real estate investment trust, we have been able to add nearly \$1.5 billion of high-quality assets to an already strong portfolio.

Creating real value means more than just getting bigger. It means growing in ways that make a difference – to our current and prospective tenants and to our unitholders. It means looking for ways to deliver even better service to our tenants

in order to keep our buildings full. It means striving to get the most from our properties by achieving greater operational efficiencies. It means pursuing accretive acquisitions – growing where the market fundamentals are strong and where we can build upon established economies of scale. And, while there are benefits that come with scale, we also work to keep a balanced, diversified portfolio to ensure consistent performance. We are focused on improving and growing our business, but never at the cost of diluting value for our existing unitholders.

# Quality

*As our portfolio has grown, the quality of our assets has also increased. Our national office and industrial portfolios are stronger. We have a greater presence in Western Canada and a tenant roster that includes many instantly recognizable names.*



Ottawa, Entrust Tower

## Acquisitions completed in 2006

# \$598M

including \$400 million across Western Canada

With a presence that extends from coast to coast, Dundee REIT is well positioned to prosper in all of its markets, and to expand in growing markets. Currently, Montréal, Ottawa, Toronto, Calgary and Edmonton – our core markets – constitute 93% of the gross leasable area of our total portfolio. We also operate in Surrey, Yellowknife, Regina, Saskatoon, Québec City and St. John's.

Calgary now has the strongest economy, and offers the best growth prospects of any Canadian city. We have been steadily expanding our position in this market, and in 2006 we added just over 0.9 million square feet of office space to our Calgary portfolio.

## A TSX-listed trust, Dundee REIT was added to the S&P/TSX Composite Index in December 2006

Our mid-2006 acquisition of the Princeton Portfolio, with assets in Edmonton, Saskatoon and Yellowknife, strengthened our presence in Western Canada. It also made Dundee REIT the primary landlord of Class A office space in Yellowknife, which offers a tenant base dominated by the federal and territorial governments and a strong, natural resource-driven economy.

Our western expansion included the acquisition of 50 acres of prime industrial development land in Edmonton. In a tight acquisition market, development projects provide Dundee REIT with another avenue for growth. We are developing the industrial land in Edmonton on our own, but also



## TOP 10 TENANTS

While the scale of our business has increased, the composition of our tenant roster has also changed considerably. The majority of our 100 largest tenants are nationally recognizable names.

- 1**  
**GOVERNMENT OF CANADA**  
Canada is among the ten largest economies in the world and currently the only G7 country in surplus.  
Moody's Rating: Aaa.
- 2**  
**GOVERNMENT OF ONTARIO**  
Ontario, Canada's economic engine, contributes about 40% to Canada's total employment.  
Moody's Rating: Aa1.
- 3**  
**TELUS**  
TELUS Corporation is the largest telecommunications company in Western Canada and the second largest in the country.
- 4**  
**AVIVA**  
Aviva is one of the leading Property and Casualty insurance groups in Canada.  
Moody's Rating: Aa2.
- 5**  
**BELL CANADA**  
Canada's largest communications network. Offering local, long distance and wireless telephone service, internet, and satellite.
- 6**  
**GOVERNMENT OF THE NORTHWEST TERRITORIES**  
NWT is enjoying significant economic growth in natural resources and tourism. The government is one of the largest employers in NWT.  
Moody's Rating: Aa1.
- 7**  
**ENTRUST**  
Entrust is a global provider of security software that secures digital identities and information.
- 8**  
**STATE STREET TRUST COMPANY**  
The world's leading financial services specialist focused on meeting the needs of sophisticated investors throughout Canada and the world.
- 9**  
**INTERNATIONAL FINANCIAL DATA SERVICES**  
From investor record-keeping to complete back office outsourcing, IFDS offers investment companies a powerful suite of trusted services.
- 10**  
**GOVERNMENT OF BRITISH COLUMBIA**  
British Columbia produces approximately 12% of Canada's total GDP and is the third-largest province in terms of its population.  
Moody's Rating: Aaa.



Edmonton, Lee Valley Building

have joint venture development projects underway in Ontario. Joint venture development offers several advantages: having a development partner helps mitigate risk, Dundee REIT earns interest on the mezzanine loans provided to the joint ventures, and we have the opportunity to purchase the properties once they are completed. We acquired our first joint venture properties in the fourth quarter, which added 357,000 square feet to our office portfolio in the Greater Toronto Area. The overall amount we may invest in development properties is strictly limited by our Declaration of Trust, and, without even being close to this limit, the development opportunities in

## Market cap

# \$1.7B

our pipeline could translate into over 2 million square feet of leasable space.

In addition to expanding our property portfolio, we have enjoyed significant growth in other aspects of our business. In 2006, we issued \$320 million in equity to fund our acquisition program and increased our market capitalization from \$740 million to \$1.7 billion. Our increased market capitalization and the heavy volume of trading activity in our units led to Dundee REIT's addition to the S&P/TSX Composite Index at the end of the year.

# Performance

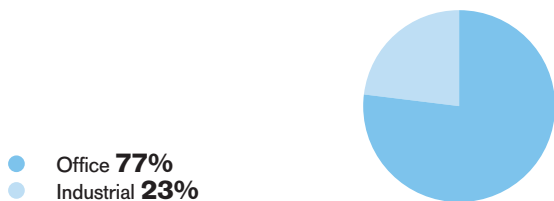
*To evaluate a company's strategy, measure its performance. In 2006, Dundee REIT's strong performance – a steady 96% occupancy rate, escalating in-place rents, consistent growth in same-property net operating income, growing funds from operations and improvements in all measures of debt management – confirmed that our strategy was sound.*



Calgary, Joffre Place

## Net operating income by segment

Three months ended December 31, 2006



## Occupancy

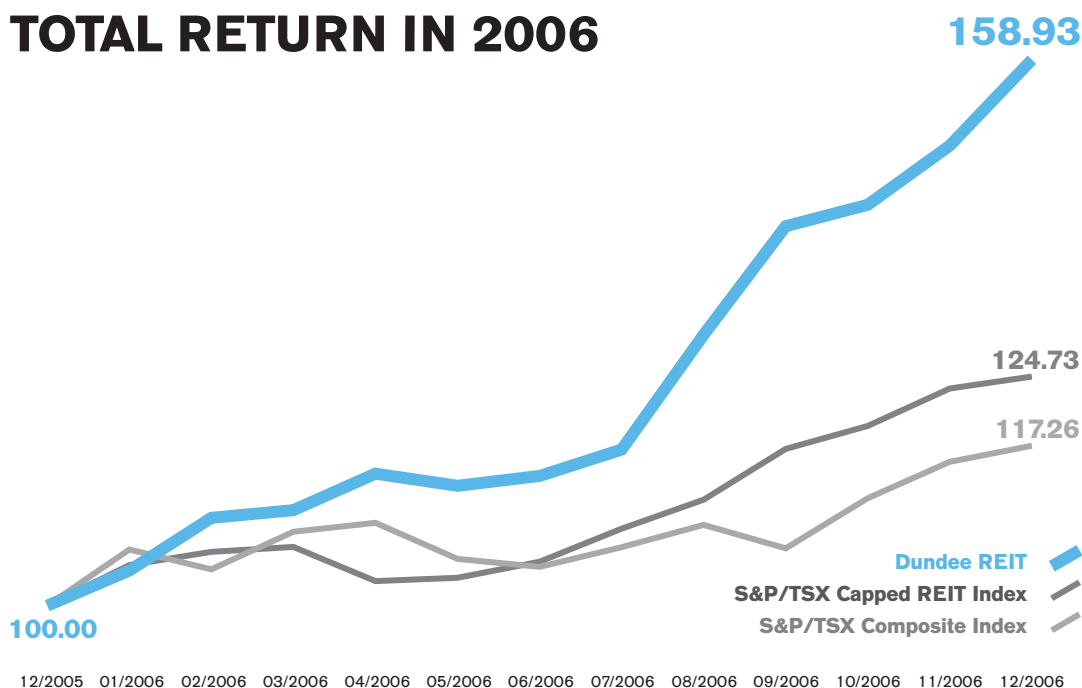


In 2006, Dundee REIT internalized all property management services, and now benefits from receiving 100% of the fees they generate. Our nation-wide team of skilled real estate professionals understands that in order to help us meet our corporate objectives and fulfill our commitment to our unitholders, we must keep our buildings full. Consequently, Dundee REIT is committed to providing industry-leading service. Our success in meeting this commitment is demonstrated by a consistently high occupancy rate across our portfolio, and our ability to effectively manage our lease maturity profile.

Internal growth – generated by increased occupancy, capturing higher rents on new leases and renewals, and the operational efficiencies created through scale – is also critical to our success. We have long believed that the most valuable growth is seen on a comparative property basis in those assets that we have owned over successive reporting periods. For six quarters in a row, Dundee REIT has produced growth in net operating income on a comparative property basis. And, we expect that we will continue to enjoy strong comparative growth in 2007.



## TOTAL RETURN IN 2006



Calgary, Franklin Atrium

## Equity issued

**\$320M**

Another critical measure of performance in the trust sector is whether adjusted funds from operations exceed the amount of distributions declared to unitholders. We reached this milestone in the third quarter of 2006. Going forward, we fully anticipate that our adjusted funds from operations will continue to grow along with other performance indicators.

While 2006 was a year of significant acquisition activity, we never lost sight of the importance of maintaining a healthy bottom line. A carefully executed strategy enabled us to add nearly \$600 million in assets to our portfolio while reducing our overall percentage of debt. We were also able to increase our interest coverage ratio, and ended the year with a 50.6% debt-to-gross book value and a much stronger balance sheet.

# Portfolio overview



Laval, 400-480 boulevard Armand Frappier



Calgary, 3030 Sunridge Way NE



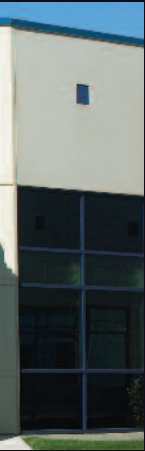
Regina, Sherwood Place



Ottawa, 700 Palladium Drive



Toronto, 2 St. Clair Avenue East



Calgary, McFarlane Tower



Edmonton, EPCOR Centre



Toronto, 720 Bay Street



Montréal, 3901 rue Jarry Est



Brampton, 400 Chrysler Drive

# Portfolio listing

	Ownership interest (%)	Owned share of total GLA (sq. ft.)	Occupancy (%)	Significant tenants
For the year ended December 31, 2006				
<b>Office properties</b>				
Scotia Centre, St. John's	100.0	190,137	100.0	Bank of Nova Scotia; Husky Oil; Petro-Canada
400-480 boulevard Armand Frappier, Laval	100.0	197,893	93.7	20-20 Technologies; Labopharm
9975-9995 avenue Catania, Brossard	100.0	124,146	95.0	Construction F. Catania
7400 boulevard les Galeries d'Anjou, Montréal	100.0	115,453	70.9	Association de la Construction du Québec
1000 boulevard Saint-Jean, Pointe-Claire	100.0	109,980	94.9	Société Immobilière du Québec
8250 boulevard Décarie, Montréal	100.0	84,041	77.6	Paging Network of Canada
30-56 du Vallon, Québec City	100.0	77,696	88.7	Desjardins Securities Financial
1400 de la Rive-Sud, Saint Romuald	100.0	77,078	100.0	Société Immobilière du Québec
3-243 Place Frontenac, Pointe-Claire	100.0	66,700	93.9	DMSC Medcorp
7450 boulevard les Galeries d'Anjou, Montréal	100.0	66,380	72.7	CFE Desjardins
953-981 boulevard Saint-Jean, Pointe-Claire	100.0	62,828	91.1	Clearwater Properties
8200 boulevard Décarie, Montréal	100.0	60,558	85.3	Ericsson Communications
2800 avenue Marie-Curie, Montréal	100.0	50,000	100.0	Solutions Mindready
25 rue de Lauzon, Boucherville	100.0	43,452	79.3	Cegerco Constructeur
1 Place du Commerce, Brossard	100.0	43,083	100.0	Société Immobilière du Québec
11 Place du Commerce, Brossard	100.0	40,531	85.2	Société Immobilière du Québec
2310 boulevard Alfred-Nobel, Montréal	100.0	36,400	100.0	Theratechnologies Inc.
768-790 boulevard Décarie, Montréal	100.0	35,804	95.5	Starlims Canada
2 Place du Commerce, Brossard	100.0	36,035	89.4	Industrielle Alliance
9045 Chemin de la Côte de Liesse, Dorval	100.0	31,183	79.0	Equinox Marketing Services
7150 rue Albert-Einstein, Montréal	100.0	31,169	100.0	Technoparc St. Laurent
8 Place du Commerce, Brossard	100.0	30,011	94.5	Auto Prevention Association
3 Place du Commerce, Brossard	100.0	27,901	100.0	Pub Fuzzy
1156 de la Rive-Sud, Saint Romuald	100.0	27,091	100.0	Société Immobilière du Québec
85 rue Bombardier, Boucherville	100.0	26,460	100.0	ITR Acoustique
2650 avenue Marie-Curie, Montréal	100.0	26,261	100.0	EXFO Protocol
3669-3681 boulevard des Sources, Dollard-des-Ormeaux	100.0	24,585	75.3	Medias Transcontinental
2300 boulevard Alfred-Nobel, Montréal	100.0	21,580	100.0	ART Aerospace Recherche & Technologies
2525 avenue Marie-Curie, Montréal	100.0	21,384	100.0	Methylgene
7290 rue Frederick-Banting, Montréal	100.0	20,859	100.0	Ecopia Biosciences
7190 rue Frederick-Banting, Montréal	100.0	20,244	100.0	AstraZeneca
7200 rue Frederick-Banting, Montréal	100.0	20,000	100.0	Thales Avionics
7150 rue Frederick-Banting, Montréal	100.0	19,623	100.0	GlaxoSmithKline Biologicals
7170 rue Frederick-Banting, Montréal	100.0	19,614	100.0	Phagotech Inc.
5 Place du Commerce, Brossard	100.0	19,451	86.6	Maple Leaf Foods
7210 rue Frederick-Banting, Montréal	100.0	18,739	100.0	Methylgene
9675 chemin de la Côte de Liesse, Dorval	100.0	17,608	39.5	Dicom Express
9545 chemin de la Côte de Liesse, Montréal	100.0	18,572	100.0	Rolls Royce
7220 rue Frederick-Banting, Montréal	100.0	17,500	100.0	Methylgene
1301 Gay Lussac, Boucherville	100.0	14,776	100.0	Clark, Drouin, Lefebvre
1135 de la Rive-Sud, Saint Romuald	100.0	12,008	100.0	Ville de Levis
985 boulevard Saint-Jean, Montréal	100.0	11,800	100.0	Buffet Vichy
975 boulevard Saint-Joseph, Gatineau	100.0	194,167	99.6	Government of Canada; Amusement Anik
222-230 Queen Street (Capitol Square), Ottawa	100.0	204,232	100.0	Government of Canada; Canada Foundation for Innovation
110 O'Connor Street, Ottawa	100.0	189,173	100.0	Bell Canada



	Ownership interest (%)	Owned share of total GLA (sq. ft.)	Occupancy (%)	Significant tenants
For the year ended December 31, 2006				
Entrust Tower, Ottawa	100.0	146,170	100.0	Entrust
25 Fitzgerald Road, Ottawa	100.0	120,000	100.0	Government of Canada
1145 Hunt Club Road, Ottawa	100.0	89,299	91.5	PRA
770 Palladium Drive, Ottawa	100.0	85,555	100.0	IBM Canada
750 Palladium Drive, Ottawa	100.0	80,550	100.0	Spirent Communications of Ottawa Ltd.
1 Antares Drive, Ottawa	100.0	71,611	89.0	Synopsis
35 Fitzgerald Road, Ottawa	100.0	63,301	100.0	Government of Ontario
700 Palladium Drive, Ottawa	100.0	63,052	100.0	DRS Technologies Canada Company
2465 St. Laurent Boulevard, Ottawa	100.0	54,997	100.0	Government of Ontario
21 Fitzgerald Road, Ottawa	100.0	41,706	100.0	Government of Canada
Aviva Corporate Centre, Scarborough	100.0	353,031	100.0	Aviva
Woodbine Steeles Corporate Centre, Markham	100.0	292,318	96.3	CGI Group; Markham Executive Suites
Centennial Centre, Toronto	100.0	236,750	95.7	HMV Canada
56 Wellesley Street West, Toronto	100.0	215,729	100.0	Government of Ontario; CMRRA
State Street Financial Centre, Toronto	50.0	206,967	100.0	International Financial Data Services; State Street Trust Company Canada; Dundee REIT
151 Bloor Street West, Toronto	100.0	170,648	95.9	Government of Ontario
2400 Skymark Avenue, Mississauga	100.0	169,004	100.0	Pharmacia; Simplex Time Recorder; News America
2 St. Clair Avenue East, Toronto	100.0	156,365	92.0	S.I.C. Management
5055 Satellite Drive, Mississauga	100.0	151,745	100.0	Bell Distribution; Loyalty Management Group; Bell Mobility; Source Logistics
204 King Street East, Toronto	100.0	135,707	100.0	Alias
1625 Tech Avenue, Mississauga	100.0	135,258	100.0	Symcor
1660-1680 Tech Avenue, Mississauga	100.0	131,775	100.0	NxCare, Unity Life of Canada
2285 Speakman Drive, Mississauga	100.0	130,335	100.0	Atomic Energy of Canada
720 Bay Street, Toronto	50.0	123,872	100.0	Government of Ontario
1685-1705 Tech Avenue, Mississauga	100.0	116,390	100.0	First Choice Canada Inc
2599 Speakman Drive, Mississauga	100.0	112,967	100.0	Atomic Energy of Canada
21 St. Clair Avenue East, Toronto	100.0	109,995	89.7	Canadian Olympic Association
5110 Creekbank Road, Mississauga	100.0	101,616	100.0	Centre of Excellence
5 Park Home Avenue, Toronto	100.0	89,405	100.0	Government of Ontario
110 Sheppard Avenue East, Toronto	50.0	75,792	86.0	Equifax Canada; Eckler Partners
1620 Tech Avenue, Mississauga	100.0	73,371	100.0	Schawk
2121 Argentia Road, Mississauga	100.0	61,185	96.4	Diversicare Management
2400-2430 Meadowpine Boulevard, Mississauga	100.0	59,354	100.0	Kleinfeldt Consultants
70 Richmond Street East, Toronto	100.0	34,414	100.0	St. Michael's Hospital
2355 Skymark Avenue, Mississauga	100.0	30,091	100.0	Dictaphone Canada
40 Bramtree Court, Brampton	100.0	20,462	100.0	Rockwell Automation Canada
5345 Creekbank Road, Mississauga	100.0	7,117	100.0	Electrical and Utilities Safety Association of Ontario
EPCOR Centre, Edmonton	100.0	191,961	100.0	EPCOR Utilities
Telus Tower, Calgary	50.0	351,821	99.8	Telus; Government of Alberta; SNC Lavalin; Bantrel
840-7th Avenue SW, Calgary	100.0	260,147	100.0	Hatch Ltd
McFarlane Tower, Calgary	100.0	236,005	97.4	Alberta Infrastructure
Franklin Atrium, Calgary	100.0	142,415	97.0	Care Factor Computer Services; Guest-Tek
Roslyn Building, Calgary	100.0	132,186	100.0	Ensign Resource Service Group
Joffre Place, Calgary	100.0	104,647	100.0	Wawanesa Mutual Insurance

# Portfolio listing

	Ownership interest (%)	Owned share of total GLA (sq. ft.)	Occupancy (%)	Significant tenants
For the year ended December 31, 2006				
2891 Sunridge Way, Calgary	100.0	87,368	100.0	Yellow Pages
Kensington House, Calgary	100.0	77,161	100.0	IBI Leaseholds
AltaLink Place, Calgary	100.0	76,755	100.0	SNC Lavalin
ACC Centre, Calgary	100.0	64,863	100.0	Alberta Computer & Cable
2175 29th Street NE, Calgary	100.0	58,001	100.0	Mentor Engineering
2256 29th Street NE, Calgary	100.0	57,955	100.0	Eaton Yale
2121 29th Street NE, Calgary	100.0	57,050	100.0	Columbia Health Care
Mount Royal Place, Calgary	100.0	56,958	100.0	First Calgary
Franklin Building, Calgary	100.0	51,063	100.0	Telus Communications
2886 Sunridge Way NE, Calgary	100.0	44,230	100.0	Precision Drilling
Geo-X Building, Calgary	100.0	36,428	100.0	Geo-X
3250 Sunridge Way NE, Calgary	100.0	27,180	100.0	Royal Bank Action Direct
3030 Sunridge Way NE, Calgary	100.0	26,894	100.0	Sure Northern Energy
Station Tower, Surrey	100.0	213,632	99.6	Government of British Columbia; Government of Canada; Fraser Health Authority
Sherwood Place, Regina	100.0	181,441	100.0	Conexus Credit Union; Co-operators Life Insurance; CGI
Victoria Tower, Regina	100.0	144,165	100.0	Saskatchewan Property Management
Princeton Tower, Saskatoon	100.0	131,707	81.3	HMTQ
Preston Centre, Saskatoon	100.0	61,810	100.0	UMA Engineering
Scotia Centre, Yellowknife	100.0	101,027	95.2	Commissioner of NWT
Precambrian Building, Yellowknife	100.0	87,484	90.2	PWGSC
Northwest Tower, Yellowknife	100.0	85,036	99.7	Municipal and Community Affairs
Bellanca Building, Yellowknife	100.0	52,285	100.0	Department of Indian and Northern Affairs
<b>Total office<sup>1</sup></b>		<b>10,121,765</b>	<b>97.0</b>	

<sup>1</sup> Excludes redevelopment properties.

## Industrial properties

22000 route Transcanadienne, Baie d'Urfé	100.0	316,243	100.0	Encore Gourmet Food Corp.
3901 rue Jarry Est, Montréal	100.0	174,013	100.0	Groupe Deschene
105-125 Montée de Liesse, Montréal	100.0	159,848	40.1	Paktek Packaging
900-950 boulevard St-Martin, Laval	100.0	142,693	100.0	Comark; Québecor (Messageries Dynamiques)
375-455 rue Deslauriers, Montréal	100.0	138,646	88.5	Hostman Steinberg
295-371 rue Deslauriers, Montréal	100.0	134,673	95.5	Essilor Canada; Satellite Metal
457-491 & 495-533 rue Deslauriers, Montréal	100.0	134,561	100.0	Va-Yola Garments; Rideau Recognition Solutions
105-145 rue Deslauriers, Montréal	100.0	116,611	100.0	Centura Québec
2580 avenue Dollard, Montréal	100.0	89,500	100.0	Sandora; Groupe Compass
350-354 boulevard Lebeau, Montréal	100.0	73,800	100.0	Socadis
2695 avenue Dollard, Montréal	100.0	70,853	100.0	Direct Source Special Products
1415-1531 rue Berlier, Laval	100.0	69,856	100.0	Le Groupe Master
290-316 rue Benjamin-Hudon & 165 rue Deslauriers, Montréal	100.0	67,075	100.0	Prosol Distribution
555 & 604-678 rue Deslauriers, Montréal	100.0	66,896	100.0	Vignoni Tex
9601-9665 chemin de la Côte de Liesse, Dorval	100.0	66,542	90.3	Les Emballages Esquire Inc.
9551-9599 chemin de la Côte de Liesse, Dorval	100.0	64,312	84.0	Qualités Meubles

	Ownership interest (%)	Owned share of total GLA (sq. ft.)	Occupancy (%)	Significant tenants
For the year ended December 31, 2006				
101 13-10161 chemin de la Côte de Liesse, Dorval	100.0	63,177	100.0	Induspac
10205-10255 chemin de la Côte de Liesse, Dorval	100.0	62,483	46.3	Tree-Pack
2789-2855 boulevard Le Corbusier, Laval	100.0	59,370	100.0	Les Aliments El Bonita
4575-4605 rue Hickmore, Montréal	100.0	57,887	100.0	Postes Destination
300 avenue Labrosse, Pointe-Claire	100.0	55,333	100.0	Flyght Canada
9501-9521 chemin de la Côte de Liesse, Dorval	100.0	55,090	100.0	McCann Equipment
115 boulevard Hymus, Montréal	100.0	55,044	100.0	Encore Gourmet Food Group
295-341 rue Benjamin-Hudon & 255 rue Deslauriers, Montréal	100.0	53,543	100.0	Cuisine Uno
9701-9745 chemin de la Côte de Liesse, Dorval	100.0	52,660	92.1	Caisse Populaire Desjardins
3961-4015 avenue Robert, Montréal	100.0	52,447	78.5	Salle de Reception il Giardino
700-740 avenue Renaud, 9125 & 9135 chemin de la Côte de Liesse, Dorval	100.0	51,181	100.0	Jason Industrial
9 Place du Commerce, Brossard	100.0	50,600	100.0	Compumédia Design
601-623 rue Le Breton, Longueuil	100.0	48,788	100.0	Coalision
601-631 rue Bériault, Longueuil	100.0	48,709	100.0	Exponent Microport
2115-2147 rue de la Provence, Longueuil	100.0	48,174	100.0	CIMA
605-607 rue Deslauriers, Montréal	100.0	43,709	100.0	Expo TCD
500-510 rue Deslauriers, Montréal	100.0	39,390	45.3	Laboratoires Colba
220-232 rue Lebeau, Montréal	100.0	36,000	100.0	Boulangeries Andalos
470-472 rue Deslauriers, Montréal	100.0	35,559	100.0	Expo TCD (Presentoirs de Metal AWW)
9335-9395 chemin de la Côte de Liesse, Dorval	100.0	31,801	100.0	Disques RSD
7 Place du Commerce, Brossard	100.0	31,500	100.0	Alstom Canada
9405-9475 chemin de la Côte de Liesse, Dorval	100.0	31,321	69.7	Constructal Hardware
742 avenue Renaud, Dorval	100.0	30,381	100.0	Divicell
35 rue de Lauzon, Boucherville	100.0	28,140	100.0	Etiquettes Profecta Labels
874-896 Place Trans-Canada, Longueuil	100.0	27,836	100.0	SP International
938-952 Place Trans-Canada, Longueuil	100.0	27,826	100.0	Distrivin
908-926 Place Trans-Canada, Longueuil	100.0	27,645	100.0	Specialités Industrielles Longueuil
982-1002 Place Trans-Canada, Longueuil	100.0	27,415	100.0	Location Luber
200-210 rue Lebeau, Montréal	100.0	26,550	100.0	IBM Canada
90 Marie Victorin, Boucherville	100.0	25,000	100.0	Air Liquide Canada
5205 Rideau, Québec City	100.0	24,400	100.0	Federal Express Canada
750 Chemin Olivier, Saint Nicolas	100.0	23,710	100.0	ITR Acoustique
735-743 avenue Renaud, Dorval	100.0	23,386	100.0	Canada Direct Database Marketing
9010-9060 rue Ryan, Dorval	100.0	23,063	70.7	Unisource Technology
9245 & 9255 chemin de la Côte de Liesse, Dorval	100.0	19,178	100.0	Vesuvius Canada Refractories
10 Place du Commerce, Brossard	100.0	18,300	100.0	Canada Post
1351 Gay Lussac, Boucherville	100.0	12,600	100.0	Cameleon Informatique Robotics
1550 de Coulomb, Boucherville	100.0	10,345	43.5	Dermatus International
780 Craig Street, Saint Nicolas	100.0	6,000	100.0	Jyga Concept
336 Montée Industrielle, Rimouski	100.0	4,447	100.0	Air Liquide Canada
2110-2160 Williams Parkway, Brampton	100.0	228,668	100.0	Mapei; Wollin Canada; W.G. Pro-Manufacturing; Eaton Yale
77 Fima Crescent, Toronto	100.0	212,110	100.0	Samko Sales; National Rubber
2155 Steeles Avenue East & 7956 Torbram Road, Brampton	100.0	154,152	96.4	J.E.T. Contracting; Smart Enterprises

# Portfolio listing

	Ownership interest (%)	Owned share of total GLA (sq. ft.)	Occupancy (%)	Significant tenants
51 Caldari Road, Vaughan	100.0	146,886	81.3	Made in Italy Imports
1925 Williams Parkway, Brampton	100.0	143,205	87.3	Cascades Enviropac; US Consolidators
7600 Danbro Crescent, Mississauga	100.0	137,728	100.0	Contract Pharmaceuticals
25 Bramtree Court, Brampton	100.0	127,876	100.0	Nico Warehousing; Park Avenue Interiors
375-425 Britannia Road, Mississauga	100.0	121,321	85.8	Badenhurst Properties
100 Legacy Road, Ottawa	100.0	103,438	100.0	Summit Food Service Distribution
1219 Corporate Drive, Burlington	100.0	103,119	100.0	ISPC Wheelabrator
70 Disco Road, Toronto	100.0	98,792	100.0	Decoustics Limited; Daytech Manufacturing
1020 Birchmount Road, Scarborough	100.0	87,161	100.0	Pfizer
400 Chrysler Drive, Brampton	100.0	87,090	100.0	Cheng Shin Rubber; Holland Imports; Flexcon Canada
2440 Scanlan Street, London	100.0	84,633	100.0	Dofasco Tubular Products
1070-1100 Midway Boulevard, Mississauga	100.0	83,368	100.0	ADM Cocoa Canada; Cimmaster
3915 Commerce Road, London	100.0	82,600	100.0	Intier Automotive
1820 Ironstone Drive, Burlington	100.0	81,776	52.7	Pippard
199 Traders Boulevard East, Mississauga	100.0	77,449	100.0	Macro Engineering and Technology
35 Bramtree Court, Brampton	100.0	63,649	100.0	Sun Rich Fresh Foods
120 Valleywood Drive, Markham	100.0	59,425	100.0	POI
4255 14th Avenue, Markham	100.0	57,377	100.0	Abbey Store Fixtures Ltd.
1020 Lorimar Avenue & 7115 Tomken Road, Mississauga	100.0	52,295	54.3	Pax-All Manufacturing
147 Massey Road, Guelph	100.0	41,190	100.0	Purolator
3820 Commerce Road, London	100.0	40,200	100.0	Thyssen Krupp Budd
55 Idema Road, Markham	100.0	36,720	100.0	Mikeway
1500-1520 Trinity Drive, Mississauga	100.0	29,759	92.9	The Drafting Clinic
85 Idema Road, Markham	100.0	28,605	100.0	Shaker-Tomlin Packagers
Ford Warehouse, Edmonton	100.0	246,000	100.0	Ford Motor Company of Canada
15303 128th Avenue, Edmonton	100.0	178,000	100.0	Connect Logistics; Highland Moving
Alberta Park, Edmonton	100.0	130,162	98.0	McLeod Windows
Bonaventure Centre, Edmonton	100.0	113,993	100.0	Bridge Brand Foods; Brink's Canada
Lee Valley Building, Edmonton	100.0	72,577	100.0	Lee Valley Tools Ltd.
Parkway East Building II, Edmonton	100.0	57,777	100.0	The Salvation Army
Park 19, Edmonton	100.0	48,365	100.0	Boden Fabricating
Parkway East Building I, Edmonton	100.0	48,282	100.0	TNT High Pressure Waterworks
Central Web Offset, Edmonton	100.0	44,500	100.0	Central Web Offset
Wood Group ESP, Edmonton	100.0	30,353	100.0	Wood Group ESP (Canada) Ltd.
Office 99, Edmonton	100.0	23,174	100.0	Koko Beach Retail Group

For the year ended December 31, 2006

	Ownership interest (%)	Owned share of total GLA (sq. ft.)	Occupancy (%)	Significant tenants
7102-7220 Barlow Trail SE, Calgary	100.0	222,570	100.0	Magnum Designs; Ecco Heating Products; Sea NG Management Corp.
2705-2737 57th Avenue SE, Calgary	100.0	108,800	100.0	Shanahan's Alberta
7004-7042 30th Street SE, Calgary	100.0	94,208	100.0	Control Chemical; Arctic Truck Parts & Service
4710-4760 14th Street NE, Calgary	100.0	72,780	100.0	Collega
2777 23rd Avenue NE, Calgary	100.0	67,250	100.0	Sleep Country
2150 29th Street NE, Calgary	100.0	59,386	100.0	Universal Measurements Solutions
1139-1165 40th Avenue NE, Calgary	100.0	57,344	100.0	Instabox
2151 32nd Street NE, Calgary	100.0	57,198	100.0	Coast Wholesale Appliances
501-529 36th Avenue SE, Calgary	100.0	57,145	100.0	Icon Stone and Tile
4504-4576 14th Street NE, Calgary	100.0	57,090	97.5	McGregor & Thompson Hardware
2928 Sunridge Way NE, Calgary	100.0	56,796	100.0	Eversource National Products
4402-4434 10th Street NE, Calgary	100.0	54,000	100.0	Budrich Industries
2985 23rd Avenue NE, Calgary	100.0	53,110	100.0	Symbiosys
535-561 36th Avenue SE, Calgary	100.0	41,440	92.8	The Flower Market
Highfield Industrial Building, Calgary	100.0	30,130	100.0	Air & Gas Compression Systems
2876 Sunridge Way NE, Calgary	100.0	30,000	100.0	Ametek
6804-6818 30th Street SE, Calgary	100.0	30,000	100.0	Enterprise Robert Thibert
6023-6039 Centre Street South, Calgary	100.0	28,800	100.0	Tac Mobility
4502-4516 10th Street NE, Calgary	100.0	28,667	100.0	Chateau Exteriors
6043-6055 Centre Street South, Calgary	100.0	25,200	100.0	Wolseley Canada
530-544 38A Avenue SE, Calgary	100.0	24,000	100.0	Korite Minerals
1135-1149 45th Avenue NE, Calgary	100.0	21,538	100.0	International Furniture
4620-4640 11th Street NE, Calgary	100.0	21,097	100.0	Tele-Mobility
102-114 61st Avenue SW, Calgary	100.0	18,900	100.0	Rapid Brake Centres; Great Northern Bedding Company
4001-4019 23rd Street NE, Calgary	100.0	15,787	100.0	Mobile Augers & Research
2915-2925 58th Avenue SE, Calgary	100.0	15,600	100.0	East-West Express
4515-4519 1st Street SE, Calgary	100.0	14,340	100.0	Mars Blinds & Shutters
3503-3521 62nd Avenue SE, Calgary	100.0	13,240	100.0	Eurika-Tech
4501-4509 1st Street SE, Calgary	100.0	13,200	100.0	Western High Voltage Test Centre
4523-4529 1st Street SE, Calgary	100.0	11,400	100.0	Chinook Auto Upholstery; 736859 Alberta (CR Techniques)
7122-7126 Barlow Trail SE, Calgary	100.0	5,400	100.0	Thermo & Design Insulation; Sunset Fireworks
7128-7132 Barlow Trail SE, Calgary	100.0	5,400	100.0	Libertas Industries; Mettler Toledo

<b>Total industrial</b>	<b>8,311,701</b>	<b>95.6</b>
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<b>Total office and industrial</b>	<b>18,433,466</b>	<b>96.4</b>
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### Redevelopment properties

2280 boulevard Alfred-Nobel, Montréal	100.0	85,384	36.6
Gallery Building, Yellowknife	100.0	14,760	12.2
Greenbriar Mall, Atlanta	50.0	397,695	90.0

<b>Total redevelopment</b>	<b>497,839</b>	<b>78.5</b>
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# Performance at-a-glance

*This at-a-glance highlights some of the more significant information that is found in the Management's Discussion and Analysis, which follows on page 23.*

## Annual acquisitions

In millions of dollars



Since Dundee REIT's inception in 2003, we have continuously increased the volume of our acquisitions. In 2006 alone we completed transactions totalling nearly \$600 million, adding 3.4 million square feet of properties to our portfolio.

## Development pipeline

Aside from fuelling our growth through acquisitions, we see value to be gained from pursuing select development opportunities. For the most part, this is accomplished through joint ventures to help mitigate our risk exposure. These investments provide us with a substantial development capacity of approximately 2.5 million square feet.

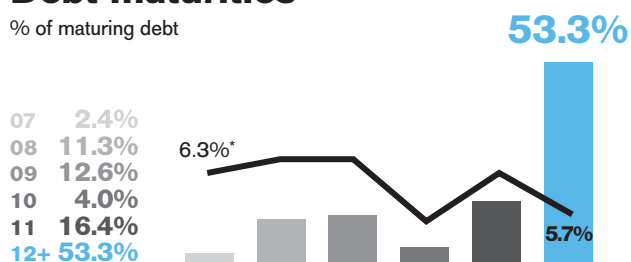
	Investment (\$000s)	Development capacity (sq. ft.)
Redevelopment properties	\$ 31,620	508,000
Current development	19,594	2,035,000
<b>Total</b>	<b>\$ 51,214</b>	<b>2,543,000</b>

## A healthy balance sheet through conservative debt management

Since June 2003, we have continuously decreased our weighted average interest rate from 7.19% to 5.95% at the end of 2006. Our interest coverage ratio has risen steadily to 2.46 times, reflecting a lower overall level of debt-to-gross book value of 50.6% as well as a lower average interest rate at the end of 2006.

## Debt maturities

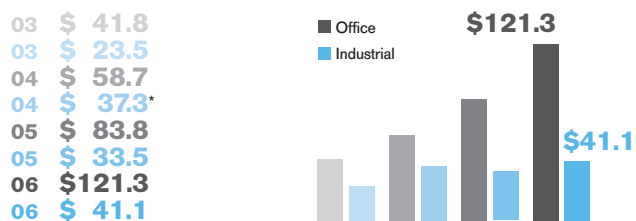
% of maturing debt



\*Line graph overlay represents average expiring interest rates.

## NOI by segment

In millions of dollars



\*2004 included flex properties acquired during the year that were moved to the office segment in 2005.

Dundee REIT has increased its focus on office properties, significantly growing the share of net operating income (“NOI”) derived from our office portfolio.

## Comparative properties NOI

**+5%**  
in 2006

We continue to achieve impressive growth within our existing portfolio, driven by leasing, rising rental rates and increased operational efficiency. In total, our comparative properties generated \$102 million of NOI in 2006, an increase of 5% over 2005. Acquisitions added another \$52 million.

## Rising rental rates

Average in-place net rent (per sq. ft.)	2006	2005
Office	\$ 13.67	\$ 13.58
Industrial	5.47	5.24
Portfolio average	10.00	9.36

## AFFO per unit

**+14%**  
in 2006

## Occupancy increased to

**96.4%**

in 2006

Adjusted funds from operations (“AFFO”) is an important measure of our economic performance and our ability to pay distributions. It is generally accepted as one of the most appropriate measures for assessing real estate performance. Our AFFO increased from \$1.92 per unit in 2005 to \$2.19 per unit in 2006. For more details and a reconciliation of AFFO to cash generated from operating activities see pages 40–42.

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## Management's discussion and analysis

(All dollar amounts in tables are presented in thousands, with the exception of unit and per unit amounts)

### Section I – Objectives and financial highlights

#### Basis of presentation

Our discussion and analysis of the financial position and results of operations of Dundee Real Estate Investment Trust ("Dundee REIT") is based on the consolidated financial statements of Dundee REIT for the years ended December 31, 2006, and December 31, 2005. This discussion should be read in conjunction with those financial statements and related notes.

This revised Management's Discussion and Analysis has been dated as at February 22, 2007. For simplicity, throughout this discussion we may use "REIT Units" in reference to our REIT Units, Series A. Certain market information has been obtained from CB Richard Ellis Market View, 4th Quarter 2006, a publication prepared by a commercial firm that provides information relating to the real estate industry. Although we believe this information is reliable, the accuracy and completeness of this information is not guaranteed. We have not independently verified this information and make no representation as to its accuracy.

Certain information herein contains or incorporates comments that constitute forward-looking information within the meaning of applicable securities legislation. Forward-looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond Dundee REIT's control, that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to, general and local economic and business conditions; the financial condition of tenants; our ability to refinance maturing debt; leasing risks, including those associated with the ability to lease vacant space; our ability to source and complete accretive acquisitions; and, interest and currency rate functions.

Although the forward-looking statements contained in this document are based upon what Dundee REIT believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain assumptions made in preparing forward-looking information and our objectives include the assumption that the Canadian economy will remain stable in 2007 and that inflation will remain relatively low. We have also assumed that interest rates will remain stable in 2007, that conditions within the real estate market, including competition for acquisitions, will be consistent with the current climate and that the Canadian capital markets will continue to provide Dundee REIT with access to equity and/or debt at reasonable rates.

All forward-looking information in this revised Management's Discussion and Analysis speaks as of February 22, 2007. Dundee REIT does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in our filings with securities regulators, including the latest annual information form of Dundee REIT. These filings are also available on our website at [www.dundeereit.com](http://www.dundeereit.com).

#### Our objectives

We are committed to:

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

#### Distributions

We currently pay monthly distributions to unitholders of \$0.183 per unit or \$2.20 on an annual basis. We also have a Distribution Reinvestment and Unit Purchase Plan ("DRIP"), which allows unitholders to have their distributions automatically reinvested into additional units of the Trust. Unitholders who enrol in the DRIP receive a bonus distribution of 4% with each reinvestment. At December 31, 2006, approximately 24% of our total units were enrolled in the DRIP or the equivalent plan for LP Class B Units, Series 1 ("LP B Units"), including 6% of REIT Units, Series A and 100% of LP B Units (please see a description of our equity on page 26).

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Distribution rate	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183
Month-end closing price	\$26.49	\$27.77	\$27.80	\$28.63	\$28.11	\$28.20	\$28.75	\$31.75	\$34.58	\$34.99	\$36.45	\$38.65

## **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***

We work to increase the value of our portfolio through continuous and active analysis of how our properties can achieve optimal performance. We identify strengths and weaknesses of individual properties and our portfolio as a whole, which allows us to quickly reposition assets when warranted. Through ongoing incremental improvements throughout our portfolio, we minimize the requirement for large capital expenditures.

We stagger our debt maturities in order to mitigate interest rate exposure and to ensure that there are no significant maturities in any given year. Lease maturities are similarly staggered to maintain continuity of income and to avoid significant lease turnovers and their associated leasing costs in any given year.

### ***Building and maintaining a diversified portfolio***

Diversifying our real estate portfolio decreases the overall risk of our business. Our portfolio is well diversified by asset type, geographic location and tenant mix. With approximately 1,800 tenants, renewals are frequent and the exposure to the loss of any single large tenant is minimized.

### ***Meeting the needs of our tenants***

A strong relationship with our tenants is critical to our success. We strive to make Dundee REIT the preferred landlord by meeting and anticipating our tenants' needs. We believe that providing a consistent, high level of service puts us in a better position to re-lease space to existing tenants and helps to attract new tenants to lease vacant space quickly and cost effectively.

### ***Pursuing external growth strategy***

We make acquisitions that represent an opportunity to improve the overall quality of our portfolio and enhance the sustainability of distributions. Our growth strategy is to acquire office and industrial properties mainly in five key markets – Montréal, Ottawa, Toronto, Calgary and Edmonton – and reposition existing properties where opportunities exist. This allows us to capitalize on operational efficiencies and further increase our presence and critical mass in these key markets.

---

**>30%**  
**DRIP enrolment**

*Throughout 2006, participation in our Distribution Reinvestment Plan averaged over 30% – a good indicator of investor confidence in our business. Unitholders who elected to reinvest their distributions benefit from a 4% bonus distribution in the form of additional units. The Trust benefits from the contribution to our cash flow.*

## Our assets

We provide high-quality, affordable business premises with a primary focus on mid-sized urban and suburban office properties as well as industrial and prestige industrial properties. The majority of our assets are concentrated in our target markets: Montréal, Ottawa, Toronto, Calgary and Edmonton. These markets are attractive to us as they represent most of Canada's largest metropolitan areas, and 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, build on our current critical mass and achieve even greater operational efficiencies. In the past year we have also found compelling acquisition opportunities, offering lower risk and the potential for greater returns, beyond our target markets.

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.

During the fourth quarter, we purchased seven office buildings in Mississauga, a suburb west of Toronto. Six of the buildings are located in the Airport Corporate Centre West ("ACCW"), in close proximity to Toronto's Pearson International Airport and were developed by and purchased from a joint venture partner. We also acquired an office property in Calgary. In total, we acquired \$103.3 million of properties during the fourth quarter, totalling 0.5 million square feet. During the year, we acquired 20 properties adding approximately 3.4 million square feet to our portfolio. The aggregate purchase price of the properties, together with our investment in development properties, was \$598.5 million.

December 31	2006				Owned gross leasable area (sq. ft.) <sup>1</sup>	
	Office	Industrial	Total	%	Total	%
Québec	1,826,477	3,336,110	5,162,587	28	4,822,052	32
National Capital Region	1,593,950	103,438	1,697,388	9	1,600,446	11
Toronto Region	3,501,663	2,467,154	5,968,817	32	4,865,530	32
Alberta	2,141,088	2,404,999	4,546,087	25	3,481,764	23
Western Canada	1,058,587	-	1,058,587	6	275,047	2
<b>Total as at December 31</b>	<b>10,121,765</b>	<b>8,311,701</b>	<b>18,433,466</b>	<b>100</b>	<b>15,044,839</b>	<b>100</b>
Percentage	55%	45%	100%			
<b>Total as at December 31, 2005</b>	<b>7,423,728</b>	<b>7,621,111</b>	<b>15,044,839</b>			
Percentage	49%	51%	100%			

<sup>1</sup> Excludes redevelopment properties and discontinued operations.

## Office rental properties

Dundee REIT owns 110 office properties (135 buildings) comprising approximately 10.1 million square feet, excluding redevelopment properties, located in St. John's, Québec City, Montréal, Ottawa, Toronto, Regina, Saskatoon, Calgary, Edmonton, Yellowknife and Vancouver. Our office properties can generally be categorized as high-quality, yet affordable suburban and downtown buildings. Acquisitions completed in 2006 have added 2.7 million square feet of well-occupied office properties to our portfolio. These properties are of high quality and have low-maintenance capital expenditure requirements.

The Canadian national office market performed very well in 2006 with the lowest national vacancy rates in 20 years. The average occupancy rate in our office portfolio increased to 97.0% from 96.3% at December 31, 2005, and remains well ahead of the national industry average of 92.3% (CB Richard Ellis, Canadian Office Market View, 4th Quarter 2006). Our occupancy rate includes lease commitments for space that is currently being readied for occupancy but for which rent is not yet being recognized.

### Industrial rental properties

We own 126 prime suburban industrial and prestige industrial properties (143 buildings) comprising approximately 8.3 million square feet, concentrated in Montréal, Toronto, Calgary and Edmonton. Our strategy is to own clusters of properties, allowing us to respond quickly and efficiently to tenants' needs during times of change in their operations or size of their workforce. The acquisitions completed in 2006 have added 0.7 million square feet of well-occupied, high-quality industrial properties to our portfolio.

At December 31, 2006, the average occupancy rate across our industrial portfolio was 95.6%, down slightly from 96.2% at December 31, 2005, however, ahead of the national industry average of 94.6% (CB Richard Ellis, Canadian Industrial Market View, 4th Quarter 2006).

### Development and redevelopment properties

We are currently partners in two joint ventures to develop office and prestige industrial properties in major Canadian markets. Other than those properties completed on a build-to-suit basis, we have the first option to purchase the properties once they reach a predetermined occupancy requirement, at a discount to the then current market value. In addition, we independently own 60 acres of commercial development land, the majority of which is in Edmonton and is in the early stages of development.

Three of our properties are currently classified as redevelopment properties. Properties are generally classified as redevelopment until the project is completed and produces positive cash flow after servicing specific debt.

### Our equity

December 31	2006		Unitholders' equity	
	Number of units	Amount	Number of units	Amount
REIT Units, Series A	34,854,553	\$ 745,348	20,449,209	\$ 376,842
LP Class B Units, Series 1	8,565,095	147,879	8,337,365	149,056
Cumulative foreign currency translation adjustment	—	(5,116)	—	(7,180)
<b>Total</b>	<b>43,419,648</b>	<b>\$ 888,111</b>	<b>28,786,574</b>	<b>\$ 518,718</b>

Our Declaration of Trust authorizes the issuance of an unlimited number of two classes of units: REIT Units and Special Trust Units. The Special Trust Units may only be issued to holders of LP B Units, are not transferable separately from these units, and are used to provide voting rights with respect to Dundee REIT to persons holding LP B Units. The LP B Units are held by Dundee Corporation, a related party to Dundee REIT. Both the REIT Units and Special Trust Units entitle the holder to one



**FARID MALEK**  
Operations Manager

*“As a landlord and property manager, one of our main objectives is to have a sound understanding of our diverse tenant base. Our mandate is to help tenants operate their business efficiently by taking care of all of their real estate needs. Managing tenants’ expectations and providing exceptional service is key to our success.”*

vote for each unit held at all meetings of the unitholders. The LP B Units are generally exchangeable on a one-for-one basis for REIT Units, Series B at the option of the holder, which can then be converted into REIT Units, Series A. The LP B Units and corresponding Special Trust Units together generally have economic and voting rights equivalent in all material respects to REIT Units, Series A. The REIT Units, Series A and REIT Units, Series B generally have economic and voting rights equivalent in all material respects to each other. There are no REIT Units, Series B outstanding.

Effective May 1, 2006, the terms of the LP B Units were amended to provide that they may not be transferred to a third party, other than a subsidiary of Dundee Corporation. As a result, if Dundee Corporation wishes to transfer the LP B Units to a third party, it must first convert the LP B Units into REIT Units, Series B. This amendment allows us to treat the outstanding LP B Units as equity for financial statement purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). As a result, effective May 1, 2006, all LP B Units are presented as equity. Prior to this date, the LP B Units were presented as non-controlling interest.

### Key performance indicators

Performance is measured by these and other key indicators:

	Three months ended December 31		Years ended December 31	
	2006	2005	2006	2005
<b>Operations</b>				
Occupancy rate (period end) <sup>1</sup>	96.4%	96.3%		
In-place rent per square foot (office and industrial) <sup>1</sup>	\$ 10.00	\$ 9.36		
<b>Operating results</b>				
Rental properties revenue	\$ 81,995	\$ 60,391	\$ 287,794	\$ 220,615
Net operating income ("NOI") <sup>2</sup>	46,258	32,008	162,441	117,257
Funds from operations ("FFO") <sup>3</sup>	29,167	17,839	97,269	66,330
Adjusted funds from operations ("AFFO") <sup>4</sup>	22,954	13,646	75,402	48,830
<b>Distributions</b>				
Distributable income <sup>5</sup>	\$ 26,654	\$ 16,546	\$ 89,002	\$ 60,430
Reinvestment to distribution ratio <sup>6,7</sup>	26.4%	42.8%	30.6%	43.0%
Cash distribution ratio	73.6%	57.2%	69.4%	57.0%
<b>Financing</b>				
Weighted average interest rate (period end)	5.95%	6.16%		
Debt-to-gross book value	50.6%	59.3%		
<b>Per unit amounts</b>				
<b>Basic:</b>				
FFO	\$ 0.74	\$ 0.68	\$ 2.82	\$ 2.61
Distributable income	0.67	0.63	2.58	2.38
Distribution rate	0.55	0.55	2.20	2.20
Total distributions as a % of distributable income	83.9%	90.1%	87.0%	94.4%
AFFO	0.58	0.52	2.19	1.92
<b>Diluted:<sup>8</sup></b>				
FFO	\$ 0.71	\$ 0.64	\$ 2.69	\$ 2.47
Distributable income	0.65	0.60	2.48	2.28

NOI, FFO, distributable income and AFFO are key measures of performance used by real estate operating companies; however, they are not defined by GAAP, do not have standard meanings and may not be comparable with other industries or income trusts.

<sup>1</sup> Excludes redevelopment properties.

<sup>2</sup> NOI – Rental property revenues less operating expenses, excluding redevelopment and discontinued operations.

<sup>3</sup> FFO – The reconciliation of FFO to net income can be found on page 39.

<sup>4</sup> AFFO – The reconciliation of AFFO to distributable income can be found on page 42.

<sup>5</sup> The reconciliation of distributable income to cash generated from operating activities can be found on page 40.

<sup>6</sup> These percentages do not include the additional 4% distributions available under the DRIP.

<sup>7</sup> Includes January 15, 2007, reinvestment of distributions declared in December 2006.

<sup>8</sup> Diluted amounts assume the conversion of the 6.5% and 5.7% Debentures.

## Financial overview

Overall occupancy remained strong during 2006 at 96.4%, with tenant rollovers allowing us to take advantage of current market rental rates, especially in our office portfolio. Our average office and industrial portfolio occupancy rates continue to be above the national industry averages. Details of our leasing profile are provided on page 31.

During 2006, we continued to grow our operations through strategic acquisitions and effectively managing our existing portfolio of properties. This has translated into NOI growth of \$14.3 million or 45% in the fourth quarter and \$45.2 million or 39% for the year when compared to the same periods in 2005. Details of our NOI are provided on page 51.

For the year, our distributable income increased to \$89.0 million, on which we declared distributions of \$76.5 million, resulting in an 85% distribution rate – a favourable improvement from the 93% distribution rate in the prior year. As a result of the high level of participation in our DRIP, our cash payout ratio for the year is 69.4% of declared distributions.

Our AFFO increased 54% to \$75.4 million for the year, representing \$2.19 per unit. In the fourth quarter AFFO was \$0.58 per unit. This is a significant milestone for Dundee REIT as it marks the second quarter that AFFO has met or exceeded our declared distributions. The improvement reflects our commitment to grow our AFFO through acquisitions and effectively managing our leasing and capital costs.

## Outlook

Solid growth in each of our key performance indicators confirms that 2006 was a great year for Dundee REIT. Occupancy rates across our portfolio are strong and rental rates continue to edge upwards. Comparative property growth, driven by leasing, rising rental rates and increased operational efficiency, is perhaps the most important and economically efficient way to boost our performance. We have now reported six consecutive quarters of growth from comparative properties.

We remain disciplined in the execution of our growth strategy, completing accretive acquisitions in our target markets or those markets with solid economies that offer growth potential. In 2006, we completed nearly \$600 million of acquisitions and added 3.4 million square feet of properties to our portfolio. The quality and volume of acquisitions completed not only this year but over the past few years have had a noticeable impact on our performance – from increased portfolio occupancy and rental rates, to revenue growth and stronger net operating income and funds from operations. Entering into new markets has proven valuable, with the properties in Yellowknife, for example, providing a higher than average return on our investment. And, the acquisitions in Calgary, a traditional target market, have provided us with great exposure to the rising rental rate environment. With \$125.4 million of acquisitions completed so far in 2007 and \$424.3 million of properties under contract, we are quite confident that our continued growth will match or exceed that achieved in this past year.

In general, the Canadian economy remains sound, with Alberta experiencing the strongest period of economic growth ever recorded by a Canadian province. Perhaps with the exception of our Montréal portfolio, we anticipate continued strong performance across our portfolio.

Our business is stronger than ever. With a healthy balance sheet, continued strong performance across our portfolio and numerous acquisition opportunities, we anticipate sustained growth throughout the year ahead.

## Section II – Executing the strategy

### Our resources and financial condition

#### Rental properties

During the fourth quarter, we completed three acquisitions for \$103.3 million, adding approximately 0.5 million square feet to our portfolio. Two of the acquisitions completed are in Mississauga and one is in Calgary. Throughout 2006 we completed 20 transactions, adding approximately 3.4 million square feet to our portfolio. The aggregate purchase price of the properties, including development assets, was \$598.5 million. The majority of our activity was in our key markets – Toronto, Calgary, Edmonton and Ottawa; however, we also completed accretive acquisitions in other markets including Québec City, Yellowknife and Regina.

In the second quarter of 2006, we sold Kameyosek Shopping Centre in Edmonton, and a 50% interest in Greenbriar Mall in Atlanta. The new co-owner has assumed the property management services for the mall. As they are redeveloping the property, we have reclassified this asset as “redevelopment”.

In the first quarter of 2006, we evaluated the classification and presentation of the properties in our portfolio. As a result of our analysis we determined that 19 properties, then classified as industrial, actually possess the characteristics of office space. These properties are fully air conditioned and built out as office space, or in some cases as laboratory or research and development space, with little or no typical industrial uses such as warehousing or light manufacturing. These properties also attract higher rental rates than typical industrial rental rates.

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

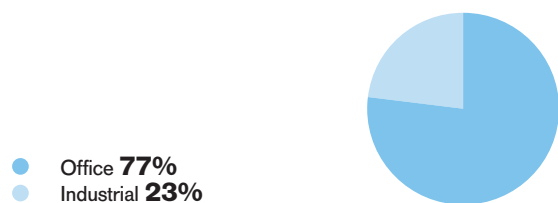
December 31	2006 <sup>1,2</sup>				2005 <sup>1,2</sup>	
	Office	Industrial	Total	%	Total	%
Québec	\$ 178,643	\$ 132,402	\$ 311,045	18	\$ 289,797	23
National Capital Region	228,007	8,215	236,222	13	232,775	18
Toronto Region	406,595	135,418	542,013	30	416,996	32
Alberta	404,479	128,122	532,601	30	281,002	22
Western Canada	163,310	–	163,310	9	58,424	5
<b>Total as at December 31</b>	<b>\$ 1,381,034</b>	<b>\$ 404,157</b>	<b>\$ 1,785,191</b>	<b>100</b>	<b>\$ 1,278,994</b>	<b>100</b>
Percentage	77%	23%	100%			
<b>Total as at December 31, 2005</b>	<b>\$ 913,866</b>	<b>\$ 365,128</b>	<b>\$ 1,278,994</b>			
Percentage	71%	29%	100%			

<sup>1</sup> Excludes \$24,234 related to Greenbriar Mall and \$7,386 related to other redevelopment properties (December 31, 2005 – \$49,401).

<sup>2</sup> Excludes discontinued operations.

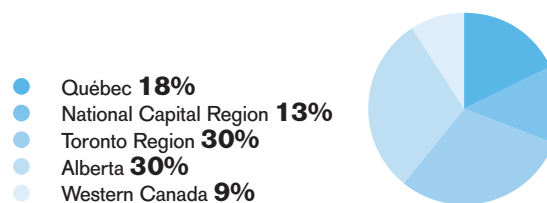
#### Portfolio asset type by net book value

At December 31, 2006



#### Geographic distribution of rental properties by net book value

At December 31, 2006



### Market information

In an effort to give additional context for our portfolio we provide below some general information with respect to those markets where we have established a critical mass of properties. The source for market occupancy, vacancy and availability rates referenced is CB Richard Ellis Market View, 4th Quarter 2006. It is important to note that occupancy rates for the office market inventory are based on Class A occupancy rates and for the industrial market inventory were derived from CB Richard Ellis' availability rates.

	Dundee REIT					Market	
	(sq. ft.)	% total (sq. ft.)	Average lease term remaining (years)	Average in-place net rent	Occupancy (%)	Estimated market rent <sup>1</sup>	Occupancy (%)
<b>Office</b>							
Montréal Region	1,826,477	9.9	4.3	\$ 12.47	90.7	\$ 11.07	87.9
Ottawa	1,593,950	8.6	4.1	14.64	99.0	15.53	95.4
Toronto Region	3,501,663	19.0	5.1	12.28	98.1	12.84	91.1
Calgary	1,949,127	10.6	5.4	15.47	99.4	24.68	99.0
<b>Industrial</b>							
Montréal Region	3,336,110	18.1	4.8	4.83	93.2	4.74	92.3
Toronto Region	2,467,154	13.4	4.5	5.96	94.8	6.10	94.7
Calgary	1,411,816	7.7	3.7	6.39	99.7	7.50	98.3
Edmonton	993,183	5.4	3.6	4.97	99.7	4.91	96.0

<sup>1</sup> Estimates only; subject to change with market conditions.

#### Montréal

The Montréal suburban office market did not show any significant change in 2006 with current vacancy levels indicating healthy supply options for prospective tenants. The occupancy rate in our Montréal portfolio remained flat at 90.7% but was ahead of the market rate. The industrial market showed relatively strong performance in 2006. And, although year-end absorption was substantially lower than in 2005, net asking rents remained stable. Occupancy in our industrial portfolio decreased slightly to 93.2% but also remained ahead of the market rate.

#### Ottawa

The overall occupancy rate for office space in Ottawa increased substantially in 2006, with significant improvements in the Kanata and West/Nepean and South/Airport sub-markets, where a significant number of our properties are located. With occupancy at 99.0%, our portfolio is virtually fully leased. The only industrial property we own in this market, which was acquired in the third quarter of 2006, is fully leased.

#### Toronto

The office market showed improvements with overall occupancy rates across the Greater Toronto Area ("GTA") rising. The occupancy rates in our office portfolio increased significantly during the year to a healthy 98.1%. The overall industrial market looked relatively stable in 2006 with availability rates of just over 5% across the GTA. At 94.8%, our portfolio occupancy was in line with the overall market conditions.

#### Calgary

Calgary continues to outpace all other downtown office markets in North America and the Province of Alberta is experiencing the strongest period of economic growth ever recorded by any Canadian province. Overall vacancy in the Calgary office market declined to just 1.0%. Our portfolio reflected this positive trend with a 99.4% occupancy rate. The overall availability rate of industrial space remains equally low at 1.7%. With an occupancy rate of 99.7%, our portfolio remains virtually fully leased.

#### Edmonton

The Edmonton office market continues on an upward trend with increasing occupancy and rental rates across the city. Our only office building in downtown Edmonton remains fully leased. The industrial market continues to be driven by businesses catering to the energy sector and is also performing very well. At an occupancy rate of 99.7%, our industrial portfolio was virtually fully leased at the end of 2006.



### Leasing profile

The following key performance indicators related to our leasing profile influence the cash generated from operating activities:

Performance indicators at December 31	2006 <sup>2</sup>	2005 <sup>2</sup>
<b>Operating activities (office and industrial average)</b>		
Occupancy level <sup>1</sup>	96.4%	96.3%
Tenant maturity profile – average term to maturity (years)	4.6 years	4.6 years
In-place rental rates	\$ 10.00	\$ 9.36

<sup>1</sup> Includes occupied and committed space.

<sup>2</sup> Excludes properties under redevelopment and discontinued operations.

The overall percentage of occupied and committed space across our rental properties portfolio was 96.4% at year-end – consistent with prior year. Both our average office and industrial portfolio occupancy rates are currently above the national industry averages of 92.3% and 94.6%, respectively (CB Richard Ellis, Canadian Office and Industrial Market Views, 4th Quarter 2006). The Dundee REIT occupancy rates discussed in this report include occupied and committed space at December 31, 2006, and exclude space to which the rent supplement (as described on page 52) is applied.

(%) December 31	Total portfolio		Comparative properties	
	2006	2005	2006	2005
<b>Office</b>				
Québec	90.7	90.7	89.9	90.7
National Capital Region	99.0	99.1	99.0	99.1
Toronto Region	98.1	96.2	97.6	96.2
Alberta	99.5	99.3	99.9	99.3
Western Canada	96.3	99.1	99.7	99.1
<b>Total office</b>	<b>97.0</b>	<b>96.3</b>	<b>96.7</b>	<b>96.3</b>
<b>Industrial</b>				
Québec	93.2	94.8	93.2	94.8
Toronto Region	94.8	96.5	93.8	96.5
Alberta	99.7	98.0	99.5	98.0
<b>Total industrial</b>	<b>95.6</b>	<b>96.2</b>	<b>95.2</b>	<b>96.2</b>
<b>Overall</b>	<b>96.4</b>	<b>96.3</b>	<b>95.9</b>	<b>96.3</b>

Excludes redevelopment properties.



**ALISON FILLINGHAM**  
Leasing Representative

*“Building and maintaining good relationships with tenants as well as the brokerage community is a fundamental element of our success as a real estate company. In 2006, we renewed nearly 2 million square feet of leases with existing tenants and completed over 1 million square feet of new deals – increasing our overall occupancy at higher rental rates.”*

The percentage of occupied and committed space across our portfolio remains strong. Occupancy across our office portfolio trended upward throughout the year, both for the total portfolio as well as for the comparative properties. Occupancy in the Toronto Region office portfolio gained strength throughout the year, showing the results of concentrated leasing efforts in our midtown portfolio. The apparent year-over-year decline in occupancy in the Western Canada office portfolio is a result of properties acquired with vacancy during the year, which will allow us to take advantage of leasing opportunities and increasing rental rates in these markets. The comparative properties in both the Alberta and Western Canada portfolios remain virtually fully leased.

The industrial markets in central Canada continue to feel the impact of overall economic conditions and the strong Canadian dollar. The Québec industrial occupancy rate, while down compared to the prior year, has gained some strength since the first quarter. Occupancy in the Toronto Region industrial portfolio was consistent with that of the prior year for much of 2006. The decline in the latter part of the year is the result of the anticipated departure of several large tenancies on the expiry of their leases.

Summary of leasing activity to December 31, 2006:

(In square feet)	Office	Industrial	Total
Vacant space available – January 1, 2006	277,203	289,668	566,871
Remeasurements	(2,988)	(15,576)	(18,564)
Acquisitions	81,461	9,310	90,771
Leases terminated/expiring	1,183,659	2,071,723	3,255,382
Total space available for lease	1,539,335	2,355,125	3,894,460
New tenants	490,176	839,181	1,329,357
Renewals	747,453	1,148,742	1,896,195
Total space leased	1,237,629	1,987,923	3,225,552
Total space available for lease – December 31, 2006	301,706	367,202	668,908
Net increase in vacant space	24,503	77,534	102,037

As a result of acquisitions completed throughout the year, our portfolio increased in size by 23% or 3.4 million square feet, including 0.1 million square feet of vacancy. During the fourth quarter, approximately 1.2 million square feet of leases expired or were terminated and we completed approximately 1.2 million square feet of renewals and new leases. Overall, we experienced healthy leasing activity across our portfolio and achieved slightly higher rental rates on both renewals and new leasing.

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

(In square feet)	Current vacancy	Current monthly tenancies	2007	2008	2009	2010	2011 and thereafter	Total
Office	301,706	66,201	952,559	942,418	1,538,606	1,309,957	5,010,318	10,121,765
Industrial	367,202	95,178	1,384,811	1,283,139	1,242,358	792,932	3,146,081	8,311,701
<b>Total</b>	<b>668,908</b>	<b>161,379</b>	<b>2,337,370</b>	<b>2,225,557</b>	<b>2,780,964</b>	<b>2,102,889</b>	<b>8,156,399</b>	<b>18,433,466</b>
Percentage	3.6%	0.9%	12.7%	12.1%	15.1%	11.4%	44.2%	100.0%

Excludes redevelopment properties.

Looking ahead to 2007, 13% of our leases will be up for renewal. We have a long and successful track record in managing our lease rollovers. With average market rents increasing across the country, particularly in Calgary, our lease maturity profile affords us the opportunity to take advantage of buoyant economic conditions. As a result, we anticipate generating increased cash flow as space is re-leased.

The following table provides average expiring rents across our portfolio as well as an estimate of average market rents as at December 31, 2006:

	Current monthly tenancies	2007	2008	2009	2010	2011 and thereafter
Office	\$ 8.51	\$ 12.60	\$ 12.15	\$ 12.90	\$ 13.84	\$ 14.42
Industrial	3.67	4.82	4.82	4.99	6.06	6.11
<b>Portfolio average</b>	5.66	7.99	7.92	9.37	10.91	11.22
<b>Market rents<sup>1</sup></b>						
Office	\$ 9.03	\$ 14.90	\$ 14.43	\$ 15.12	\$ 16.65	\$ 17.06
Industrial	4.79	5.03	5.08	5.37	6.12	6.24
<b>Market rent average</b>	6.53	9.04	9.04	10.76	12.68	12.89

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

Our tenant maturity profile has remained consistent over a long period of time. The small decrease in the average term to maturity in the office portfolio to 4.7 years from 4.8 years reflects the impact of month-to-month tenancies as well as the time elapsed since year-end, partially offset by new leasing activity. Average remaining lease term and other portfolio information is as follows:

December 31	2006			2005		
	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place net rent (per sq. ft.) <sup>1</sup>	Average remaining lease term (years)	Average tenant size (sq. ft.)	Average in-place net rent (per sq. ft.) <sup>1</sup>
Office	4.72	8,554	\$ 13.67	4.78	9,405	\$ 13.58
Industrial	4.36	13,024	\$ 5.47	4.33	12,750	\$ 5.24
<b>Portfolio average</b>	4.56	10,105	\$ 10.00	4.55	10,765	\$ 9.36

All amounts exclude redevelopment properties and discontinued operations.

<sup>1</sup> Average in-place rents include straight-line rent adjustments.

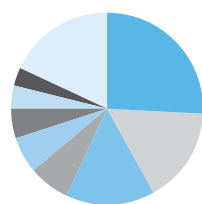
Our estimate of the current average market rental rate is approximately 13% higher than our 2007 expiring rental rate. While this is a positive indicator, the marketplace remains competitive and any uplift in our overall average rent will depend on the amount of space rolling into the higher net rental rates.

Our tenant base includes a wide range of high-quality tenants including government, large international corporations and small entrepreneurial businesses across the country. With approximately 1,800 tenants, our risk exposure to any single large lease or tenant is low. The average sizes of our office and industrial tenants are approximately 8,600 and 13,000 square feet, respectively, placing us at the lower end of our peer group. Effectively managing this diverse tenant group has become a key strength and has helped us to maintain consistently high occupancy levels.

The following graph 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. NAICS is a system used for classifying the industry in which tenants operate.

### Tenant base by percentage contribution to total contract rent

At December 31, 2006



- Professional, Scientific and Technical Services **26%**
- Public Administration **16%**
- Manufacturing **15%**
- Finance and Insurance **7%**
- Wholesale Trade **6%**
- Information and Cultural Industries **5%**
- Retail Trade **4%**
- Transportation and Warehousing **3%**
- Other **18%**

The stability and quality of our cash flow is further enhanced by government agencies contributing 16% to our gross rental revenue. Our ten largest tenants feature both federal and provincial governments as well as other nationally and internationally recognizable businesses. The table below highlights the quality of these tenancies and outlines their contribution to our cash flow.

Tenant	Owned area in sq. ft.	% of owned area	% of gross rental revenue	Expiry
Government of Canada	867,200	4.7	6.3	2007–2015
Government of Ontario	508,600	2.8	4.2	2007–2015
Telus Communications	311,100	1.7	3.1	2013–2016
Aviva	316,000	1.7	2.4	2016
Bell Canada	307,100	1.7	2.1	2007–2010
Government of Northwest Territories	108,700	0.6	1.3	2007–2012
Entrust	146,200	0.8	1.3	2015
State Street Trust Company	93,600	0.5	1.3	2012
International Financial Data Services	96,000	0.5	1.2	2007–2013
Government of British Columbia	102,000	0.6	1.1	2009
<b>Total</b>	<b>2,856,500</b>	<b>15.6</b>	<b>24.3</b>	

### Development and redevelopment properties

December 31	2006	2005
Land under development	\$ 31,991	\$ —
Land held for future development	1,021	—
Land held for sale	8,383	—
<b>Total</b>	<b>\$ 41,395</b>	<b>\$ —</b>

These assets consist of land acquired in 2006 for the purpose of development, as well as capitalized development costs incurred in 2006.

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

In 2004, we provided mezzanine financing with respect to the development of a six-building portfolio in Airport Corporate Centre West in Mississauga. In November of this year, we acquired all of the properties for a purchase price of \$66.3 million, including a 2% discount to the negotiated market value of the properties. At the time of acquisition, the properties were 86% leased. Additional leasing activity completed subsequent to year-end has increased committed occupancy to approximately 97%.

On May 26, 2006, we entered into a joint venture agreement with a development partner to acquire land and develop office and prestige industrial properties in major Canadian markets. We have a 60% ownership interest in the joint venture. Other than those properties constructed on a build-to-suit basis for third parties, we have the first option to acquire the completed properties, once they reach a predetermined occupancy requirement, at a discount to the market value at the date of acquisition. As part of the agreement, we are to provide mezzanine financing equal to 90% of any funding requirement not otherwise provided by third-party lenders, up to a maximum of \$45 million. We are also required to guarantee, when necessary, 90% of financing obtained from third parties. As at December 31, 2006, we have funded \$9.2 million and provided a guarantee on \$8.3 million of third-party financing related to two development projects in suburban Toronto that we expect will yield about 60 acres of developable lands.

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

Location	Property type	Acres	Investment	Development capacity (sq. ft.)	Status
<b>Redevelopment properties</b>					
2280 boul. Alfred Nobel, Montréal	office	–	\$ 7,019	85,000	Construction is complete and the property is 37% leased
Gallery Building, Yellowknife	office	–	367	25,000	Planning
Greenbriar Mall, Atlanta	retail	–	24,234	398,000	Property being redeveloped by our co-owner
		–	\$ 31,620	508,000	
<b>Current development</b>					
Barker Business Park, Richmond Hill (JV)	office/ind.	40	\$ 6,204	860,000	Site work, pre-leasing
Tullamore Business Park, Caledon (JV)	industrial	19	2,997	375,000	Site work, pre-leasing
Sunwapta Business Park, Edmonton	office/ind.	39	10,393	800,000	Site work, pre-leasing
		98	\$ 19,594	2,035,000	
<b>Development opportunities</b>					
Palladium Lands, Ottawa	office	3	\$ 833	81,000	
10089 and 10079 Jasper Ave., Edmonton	office	–	4,683	250,000	
Speakman Project, Mississauga	office	14	–	100,000	
Station Tower Lands, Surrey	office	3	3,841	500,000	
Niven Lake Lands, Yellowknife	–	10	711	200,000	
		30	\$ 10,068	1,131,000	
<b>Held for sale</b>					
Sunwapta Business Park, Edmonton	retail	11	\$ 7,572	200,000	
19th Street Lands, Saskatoon	retail	0.5	811	–	
		11.5	\$ 8,383	200,000	

### Liquidity and capital resources

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 and interest payments, mezzanine loans 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, new equity or debt issues.



**BARRY WHITE**  
Project Manager, Construction

*“We have become focused on ‘green’ building and construction standards. Dundee REIT is currently targeting LEED Silver Certification (Leadership in Energy and Environmental Design) for a new development in suburban Toronto. One of its features will be recycling rain water captured from the roof and using it in the irrigation system for the benefit of the property.”*

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

	Three months ended December 31		Years ended December 31	
	2006	2005 (restated)	2006	2005 (restated)
Cash generated from operating activities	\$ 24,003	\$ 13,204	\$ 87,862	\$ 62,992
Cash utilized in investing activities	(93,260)	(56,491)	(470,595)	(276,725)
Cash generated from financing activities	127,141	53,845	437,214	212,918
<b>Increase (decrease) in cash and cash equivalents</b>	<b>\$ 57,884</b>	<b>\$ 10,558</b>	<b>\$ 54,481</b>	<b>\$ (815)</b>

At December 31, 2006, cash and cash equivalents were \$71.0 million, an increase of \$57.9 million compared to the prior quarter and \$54.5 million compared to December 31, 2005. The increase was a result of the cash flows indicated above, including the impact of acquisitions, new financing activity and equity issues. The large cash balance on hand at December 31, 2006, was mainly residual from the proceeds from the public offering completed on December 12, 2006, which was mainly used to fund the acquisition of 30 and 55 St. Clair Avenue West, Toronto, completed on January 9, 2007. We have an \$80 million revolving credit facility, of which approximately \$79.3 million is available to provide further funding for working capital or as a bridge facility to fund acquisitions.

### *Operating activities*

The following table details the cash generated from operating activities:

	Three months ended December 31		Years ended December 31	
	2006	2005 (restated)	2006	2005 (restated)
Net income	\$ 7,952	\$ (5,015)	\$ 11,218	\$ 4,309
Non-cash items:				
Amortization of market rent adjustments on acquired leases	(1,622)	(81)	(4,124)	(331)
All other depreciation and amortization	20,590	14,032	70,591	49,267
Provision for impairment in value of rental properties	-	11,533	-	11,533
Internalization of property manager	615	-	13,678	-
Loss (gain) on disposal of rental properties	4	3,837	(3,009)	3,620
Deferred unit compensation expense	354	243	1,170	830
Future income taxes	(111)	(4,287)	2,314	(3,653)
Straight-line rent adjustment	(767)	(839)	(3,164)	(3,688)
Dilution gain	-	(296)	-	(1,890)
Non-controlling interest	-	(2,281)	1,876	1,523
	<b>27,015</b>	<b>16,846</b>	<b>90,550</b>	<b>61,520</b>
Deferred leasing costs incurred	(2,352)	(1,602)	(6,097)	(4,440)
Change in non-cash working capital	(660)	(2,040)	3,409	5,912
<b>Cash generated from operating activities</b>	<b>\$ 24,003</b>	<b>\$ 13,204</b>	<b>\$ 87,862</b>	<b>\$ 62,992</b>

The change in cash generated from operations during the three- and twelve-month periods primarily reflects the impact of acquisitions.

The amortization of market rent adjustments on acquired leases represents the impact of leases with below market rents, related to certain properties acquired in Alberta during the year. Below market leases are recorded as intangible liabilities and are amortized to rental property revenue over the terms of the related leases.

In the fourth quarter of 2005, when we entered into the commitment to sell 50% of Greenbriar Mall, we recognized a provision for the impairment in value of 50% of our investment in the property. Because the expected proceeds of the sale were less than the carrying amount of the property, the difference was recognized as an impairment loss. The sale was completed in the second quarter of 2006, at which time we recognized an additional \$0.2 million loss.

In the second quarter of 2006, we fully internalized our property management function through the purchase of the remaining 50% interest of Dundee Management Limited Partnership (“DMLP”) for \$12.6 million. Of this amount, \$12.2 million was expensed and \$0.4 million was allocated to the net tangible assets acquired. The amount expensed includes \$12.2 million related to the 450,000 LP B Units issued on closing. The issue price per LP B Unit of \$27.54 was estimated based on the five-day weighted average trading price of REIT Units on the Toronto Stock Exchange, with the midpoint being May 4, 2006 (the date the substantive terms of the internalization were publicly announced), net of a discount for implied issuance costs. Also on closing, 92,000 LP B Units were issued, placed in trust and enrolled in the DRIP to satisfy the maximum number of units that Dundee Realty Corporation (“DRC”) may be entitled to receive on June 30, 2007, as a result of qualifying property acquisitions being completed by us. The cost of these units will be expensed and added to cumulative capital as qualifying properties are acquired by Dundee REIT. Any units that are not ultimately issued to DRC as additional consideration will be returned to DMLP for cancellation. During the year ended December 31, 2006, we acquired \$340.6 million of qualifying properties and accordingly \$1.5 million was expensed and added to cumulative capital representing the cost of the additional 55,326 LP B Units that DRC will be entitled to receive on June 30, 2007.

The straight-line rent adjustment represents the difference between the straight-line method of rental revenue recognition and the cash rents received. Any cumulative difference is included in accounts receivable.

Deferred leasing costs include fees and costs, except for initial leasing costs that are included in rental properties, and deferred leasing costs acquired. Deferred leasing costs are amortized on a straight-line basis over the term of the applicable lease to amortization expense. Deferred leasing costs for the year increased by \$1.7 million compared to 2005 due to increased leasing activity.

The variance in the change in non-cash working capital over the prior quarter and prior year mainly reflects the increase in accounts receivable. We expect to meet all working capital requirements from cash generated from operating activities.

#### *Leasing costs and tenant improvements*

Leasing costs include leasing fees and costs, broker commissions and tenant inducements. Tenant improvements include costs incurred to make leasehold improvements to the leased space. Leasing cost and tenant improvement expenditures are dependent on asset type, lease terminations and expiries, the mix of new leasing activity compared to renewals, portfolio growth and general market conditions. 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.

As a result of new accounting rules, we have reclassified tenant improvements to investing activities on the statement of cash flows. Leasing costs and tenant improvements were \$6.0 million and \$13.8 million for the respective three- and twelve-month periods representing increases of \$1.9 million and \$0.3 million, respectively. Included in leasing costs and tenant improvements in 2006 is \$0.3 million related to redevelopment properties.

During 2006, office leasing activity increased 58% and resulted in 1.1 million square feet of new leasing and renewals. Related expenditures incurred during this period only increased by 47%, reflecting our continued commitment to managing expenditures. Industrial leasing activity decreased 8% and resulted in 1.7 million square feet of new leases and renewals. Related expenditures decreased by \$1.2 million mainly due to short-term renewals on which we do not incur leasing costs as well as our commitment to managing expenditures.

Performance indicators	Office <sup>1</sup>	Industrial	Total
<b>Operating activities</b>			
Portfolio size (sq. ft.)	10,121,765	8,311,701	18,433,466
Occupied and committed	97.0%	95.6%	96.4%
Square footage leased and occupied in 2006	1,111,362	1,657,627	2,768,989
Leasing costs (\$000s)	\$ 4,396	\$ 1,683	\$ 6,079
Tenant improvements (\$000s)	\$ 5,552	\$ 1,833	\$ 7,385

<sup>1</sup> Excludes redevelopment properties.

The following table summarizes our leasing activity for 2006:

	2006 expenditures	Prepaid leasing costs	Committed leasing costs	Incurred (prepaid) prior year	Total leasing costs	Sq. ft. leased and occupied	Cost per sq. ft.
Office	\$ 9,948	\$ 1,385	\$ 1,548	\$ 412	\$ 9,699	1,111,362	\$ 8.73
Industrial	3,516	590	197	(278)	3,401	1,657,627	2.05
<b>Total</b>	<b>\$ 13,464</b>	<b>\$ 1,975</b>	<b>\$ 1,745</b>	<b>\$ 134</b>	<b>\$ 13,100</b>	<b>2,768,989</b>	<b>\$ 4.73</b>

The table below provides our annualized estimates of expected leasing activity and leasing costs over a two- to three-year time horizon. These estimates are based on our portfolio at the end of 2006 and assume that market conditions remain consistent with our current experience.

	Office	Industrial
Estimated average annual leasing activity (sq. ft.)	1,180,000	1,790,000
Average leasing costs (per sq. ft.)	\$ 8.95	\$ 2.10
Expected average annual leasing costs (\$000s)	\$ 10,561	\$ 3,259

#### *Other assets and liabilities*

Other assets consist of deferred costs, prepaid expenses, intangible assets and liabilities, mezzanine loans, a vendor loan, deposits and restricted cash. Other liabilities consist of intangible liabilities related to below market leases acquired. A full description of these assets and liabilities is provided in Note 2 of the financial statements.

The net increase in deferred costs during 2006 was \$8.2 million. This change includes increases in deferred charges of approximately \$14.8 million related to acquisitions and \$15.0 million in additional deferred expenditures incurred during the year, net of \$4.0 million in dispositions and \$17.6 million in amortization. Complete details of deferred costs are provided in Note 5 of the financial statements.

Intangible assets and liabilities include the value of above and below market leases, in-place leases, lease origination costs and tenant relationships. Complete details of these assets and liabilities are provided in Note 9 of the financial statements. As of December 31, 2006, net assets increased \$2.3 million from the prior year. This increase is mainly a result of approximately \$15.0 million related to acquisitions, offset by \$13.0 million in amortization expense.

As at December 31, 2006, we had \$3.9 million in mezzanine loans outstanding related to our joint venture developments, as discussed in "Development and redevelopment properties" on page 34. In the fourth quarter our mezzanine loan investment with respect to the ACCW project in Mississauga was repaid when we exercised our option to acquire the related properties.

On December 14, 2006, the \$3.5 million vendor loan with respect to the sale of Northgate Mall in December 2004 was repaid in full.

Deposits of \$4.6 million represent cash amounts held for repayment of tenant security deposits as required by various lending agreements. The \$3.3 million net increase for the year is primarily due to the acquisitions completed during the year.

Restricted cash primarily represents tenant rent deposits and cash held as security for certain mortgages. The balance as of December 31, 2006, is \$5.6 million, an increase of \$1.2 million from the prior year.



### Commitments and contingencies

We are contingently liable with respect to 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 our financial statements.

Our future minimum commitments under operating, capital and ground leases are as follows:

Years ending December 31	Operating lease payments	Capital lease payments	Ground lease payments
2007	\$ 1,315	\$ 128	\$ 1,141
2008	1,154	117	1,113
2009	962	–	1,112
2010	668	–	573
2011	660	–	32
2012 and thereafter	1,300	–	33
<b>Total</b>	<b>\$ 6,059</b>	<b>\$ 245</b>	<b>\$ 4,004</b>

### Funds from operations

Management believes FFO is an important measure of our operating performance and is indicative of our cash-generating activities. This measurement is generally accepted as one of the most meaningful and useful measures of performance of real estate operations; however, it does not represent cash flow from operating activities as defined by GAAP and is not necessarily indicative of cash available to fund Dundee REIT's needs.

In 2005, the Real Property Association of Canada (“REALpac”) provided guidelines on the definition of FFO to help promote more consistent disclosure. Until such time as all income trusts adopt this policy, our computation of FFO may not be comparable to other REITs or income trusts.

	Three months ended December 31		Years ended December 31	
	2006	2005	2006	2005
<b>Net income (loss)</b>	<b>\$ 7,952</b>	<b>\$ (5,015)</b>	<b>\$ 11,218</b>	<b>\$ 4,309</b>
Add (deduct):				
Depreciation of rental properties	11,259	8,117	39,908	29,743
Amortization of deferred leasing costs, tenant improvements and intangibles	9,384	5,918	30,643	19,985
Imputed amortization of leasing costs related to the rent supplement	81	318	694	1,176
Internalization of property manager	615	–	13,678	–
Loss (gain) on disposal of rental properties	4	3,837	(3,009)	3,620
Provision for impairment in value of rental property	–	11,533	–	11,533
Future income tax	(111)	(4,286)	2,314	(3,653)
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(17)	(6)	(53)	(16)
Dilution gain	–	(296)	–	(1,890)
Non-controlling interest	–	(2,281)	1,876	1,523
<b>FFO</b>	<b>\$ 29,167</b>	<b>\$ 17,839</b>	<b>\$ 97,269</b>	<b>\$ 66,330</b>
<b>FFO per unit – basic</b>	<b>\$ 0.74</b>	<b>\$ 0.68</b>	<b>\$ 2.82</b>	<b>\$ 2.61</b>
<b>FFO per unit – diluted</b>	<b>\$ 0.71</b>	<b>\$ 0.64</b>	<b>\$ 2.69</b>	<b>\$ 2.47</b>

The increase in FFO per unit in both the three- and twelve-month periods is primarily due to additional revenue generated by acquisitions as well as growth in occupancy and rising rental rates. A reduction in our weighted average interest rate also had a positive impact on FFO. Below market rents, which result in a non-cash amortization to our operating results, positively impact our FFO. The impact of below market rents on diluted FFO per unit was \$0.04 and \$0.13 for the respective three- and twelve-month periods.

Diluted FFO per unit amounts assume the conversion of the 6.5% and 5.7% Debentures. The weighted average number of units outstanding for basic and diluted FFO calculations for the fourth quarter are 39,588,295 and 43,447,393, respectively. Diluted FFO includes interest and amortization adjustments of \$1.8 million. Year-to-date, the weighted average number of units outstanding for basic and diluted FFO calculations are 34,446,486 and 40,004,679, respectively. Diluted FFO includes interest and amortization adjustments of \$10.2 million.

#### *Distributions and distributable income*

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

Distributable income per unit for the year was \$2.58 and declared distributions were \$2.20, representing an 85% payout ratio. In the prior year comparative period, distributable income per unit was \$2.38 per unit and declared distributions were \$2.20, representing a 93% payout ratio.

#### Distributable income

	Three months ended December 31		Years ended December 31	
	2006	2005	2006	2005
<b>Cash generated from operating activities</b>	<b>\$ 24,003</b>	\$ 13,204	<b>\$ 87,862</b>	\$ 62,992
Add (deduct):				
Deferred leasing costs incurred	<b>2,352</b>	1,602	<b>6,097</b>	4,440
Amortization of deferred financing costs incurred prior to June 30, 2003	<b>65</b>	94	<b>335</b>	366
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	<b>16</b>	25	<b>73</b>	111
Amortization of tenant inducement	<b>20</b>	–	<b>19</b>	–
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	<b>(17)</b>	(4)	<b>(53)</b>	(16)
Amortization of deferred financing costs	<b>(445)</b>	(415)	<b>(1,922)</b>	(1,551)
Change in non-cash working capital	<b>660</b>	2,040	<b>(3,409)</b>	(5,912)
Distributable income	<b>\$ 26,654</b>	\$ 16,546	<b>\$ 89,002</b>	\$ 60,430
Distributable income per unit – basic	<b>\$ 0.67</b>	\$ 0.63	<b>\$ 2.58</b>	\$ 2.38
Distributable income per unit – diluted	<b>\$ 0.65</b>	\$ 0.60	<b>\$ 2.48</b>	\$ 2.28
Distributions	<b>\$ 0.55</b>	\$ 0.55	<b>\$ 2.20</b>	\$ 2.20

#### Funds from operations per unit



\*2003 is an annualized amount.

*Funds from operations per unit is a key measure of our operating performance. Since the inception of the Trust in 2003, we have been able to continuously increase our annual funds from operations – a positive indicator of an accretive acquisition program and the overall strength of our business.*

Distributable income is not a measure defined by GAAP and therefore may not be comparable to similar measures presented by other real estate investment trusts. Distributable income is defined in our Declaration of Trust to facilitate the determination of distributions to our unitholders. On August 4, 2006, the Canadian Securities Administrators (the "CSA") issued CSA Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures" (the "Notice"). The Notice provides that in the view of CSA staff, all distributable cash presentations should begin with cash flows from operating activities. In compliance with the Notice, our table reconciles distributable income, as defined by our Declaration of Trust, to cash generated from operating activities.

### Distributions

The distributions presented in the table below comprise \$57.8 million relating to REIT Units and \$19.7 million relating to LP B Units. Cash distributions were only paid to holders of REIT Units as all of the LP B Units are enrolled in the DRIP.

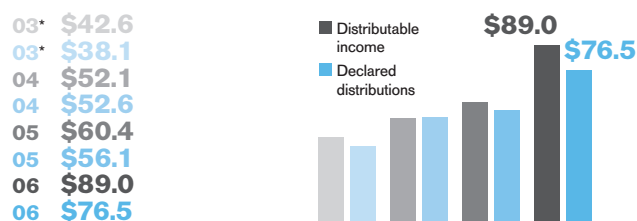
	Declared distributions	4% additional distributions	Total
<b>2006 distributions</b>			
Paid in cash or reinvested in units	\$ 68,575	\$ 861	\$ 69,436
Payable at December 31, 2006	7,936	77	8,013
<b>Total distributions</b>	<b>\$ 76,511</b>	<b>\$ 938</b>	<b>\$ 77,449</b>
<b>2006 reinvestment</b>			
Reinvested to December 31, 2006	\$ 21,528	\$ 861	\$ 22,389
Reinvested on January 15, 2007	1,912	77	1,989
<b>Total distributions reinvested</b>	<b>\$ 23,440</b>	<b>\$ 938</b>	<b>\$ 24,378</b>
Distributions paid in cash	\$ 53,071		
Reinvestment to distribution ratio	30.6%		
Cash distribution payout ratio	69.4%		

Distributions declared in the year ended December 31, 2006, totalled \$76.5 million or 85% of distributable income, an increase of \$20.4 million over the comparative period. Of this amount, \$23.4 million or 30.6% was reinvested in additional units. The increase in declared distributions arises from an incremental increase in units generated through the DRIP, REIT Units issued as part of public offerings completed in April, June and December 2006, as well as REIT Units issued on the conversion of debentures. As a result of the high level of participation in the DRIP, our cash payout ratio for our distributions is 69.4%.

In the year ended December 31, 2006, we declared \$19.7 million in distributions on LP B Units, which was satisfied by the issuance of 618,853 REIT Units and 61,092 LP B Units.

### Distributable income

In millions of dollars



\*2003 is an annualized amount.

Over the years the dollar amount of declared distributions has increased, corresponding with our expanding unitholder base. Yet, with the strength of our financial performance, the growth in distributable income has outpaced the growth in declared distributions. Our Declaration of Trust requires us to pay out at least 80% of our distributable income. In 2006, we paid out 85% of our distributable income, compared to 93% in 2005.

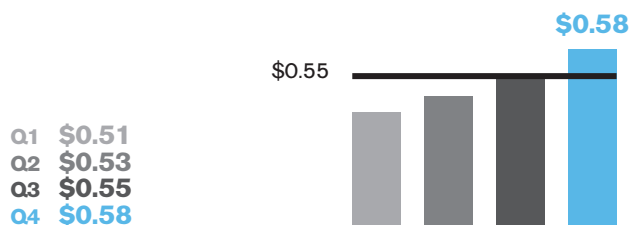
*Adjusted funds from operations*

	Three months ended December 31		Years ended December 31	
	2006	2005	2006	2005
Distributable income	\$ 26,654	\$ 16,546	\$ 89,002	\$ 60,430
Adjusted for:				
Normalized leasing costs and tenant improvements	(3,350)	(2,600)	(12,200)	(10,400)
Normalized non-recoverable recurring capital expenditures	(350)	(300)	(1,400)	(1,200)
<b>AFFO</b>	<b>\$ 22,954</b>	<b>\$ 13,646</b>	<b>\$ 75,402</b>	<b>\$ 48,830</b>
<b>AFFO per unit – Basic</b>	<b>\$ 0.58</b>	<b>\$ 0.52</b>	<b>\$ 2.19</b>	<b>\$ 1.92</b>

Management believes adjusted funds from operations (“AFFO”) is an important measure of our economic performance and is indicative of our ability to pay distributions. This measurement is generally accepted as one of the most appropriate measures for assessing real estate performance; however, it does not represent cash flow from operating activities as defined by GAAP and is not necessarily indicative of cash available to fund Dundee REIT’s needs. Please see our description of distributable income, on page 40, which reconciles distributable income to cash flow from operations.

Our calculation of AFFO starts with our distributable income and then deducts an estimate of normalized non-recoverable maintenance capital expenditures, leasing costs and tenant improvements that we expect to incur based on our current portfolio and expected average leasing activity. Our estimates of normalized leasing costs and tenant improvements are based on the average of our expected leasing activity over the next two to three years and multiplied by the average cost per square foot that we incurred and committed to in 2006. Our estimates of normalized non-recoverable capital expenditures are based on our expected average expenditure for our current property portfolio. This estimate will differ from actual experience due to the timing of expenditures and the growth in our business resulting from property acquisitions.

### Adjusted funds from operations per unit



*An important objective is to generate adjusted funds from operations in excess of distributions declared to unitholders. During the year, we achieved this important target. We anticipate continued growth in our performance measures in 2007.*

**Investing activities**

The following table details our cash utilized in investing activities:

	Three months ended December 31		Years ended December 31	
	2006	2005 (restated)	2006	2005 (restated)
Investment in rental properties	\$ (2,659)	\$ (3,709)	\$ (9,173)	\$ (7,833)
Investment in tenant improvement	(3,662)	(2,508)	(7,667)	(9,033)
Investment in land development	(1,047)	–	(2,103)	–
Acquisition of rental properties and land	(98,140)	(54,521)	(484,667)	(275,024)
Acquisition deposit on rental properties	(3,600)	(705)	(3,600)	(880)
Receipt of mezzanine loan	13,142	–	9,487	(750)
Vendor take-back mortgage repayment	3,450	–	3,450	–
Net proceeds from disposal of rental properties	(78)	5,864	24,922	8,118
Change in restricted cash, net	(666)	(912)	(1,244)	8,677
<b>Cash utilized in investing activities</b>	<b>\$ (93,260)</b>	<b>\$ (56,491)</b>	<b>\$ (470,595)</b>	<b>\$ (276,725)</b>

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

Performance indicators	Three months ended December 31		Years ended December 31	
	2006	2005	2006	2005
<b>Investing activities</b>				
Acquisition of rental properties	\$ 103,259	\$ 71,550	\$ 559,197	\$ 349,903
Building improvements	\$ 3,444	\$ 4,555	\$ 9,028	\$ 8,529
Acquisition of land	\$ –	\$ –	\$ 39,292	\$ 718

**Acquisitions and dispositions**

During the fourth quarter of 2006, we acquired \$103.3 million of rental properties, land and related intangible assets funded by \$98.1 million in cash. For the year, we completed acquisitions totalling \$598.5 million funded by \$484.7 million in cash and \$103.0 million in assumed mortgages. Acquisitions completed during 2005 and 2006 have increased net operating income by approximately \$12.0 million and \$38.5 million for the three- and twelve-month periods, respectively.

A component of our acquisition strategy is to acquire properties in our key markets, allowing us to capitalize on our operational efficiencies, further increase our presence and critical mass in our target markets and improve the overall quality and rental income stability of our portfolio. Since the formation of the REIT on July 1, 2003, we have invested over \$1.3 billion in high-quality properties that are accretive to our performance.



**BONNIE CREWS & SUHAN HANNAN**  
Managers, Investments

*“2006 was a very active year on the acquisition front. Throughout the year we completed transactions totalling nearly \$600 million, adding over 3 million square feet of gross leasable area to our portfolio. Two significant portfolio acquisitions substantially increased our exposure to the booming markets in Western Canada and Calgary in particular.”*

On June 29, 2006, we completed the sale of Kameyosek Shopping Centre, a 46,143 square foot retail property. We received proceeds of \$8.4 million and recognized a gain on sale of \$3.3 million. On June 2, 2006, we completed the sale of a 50% interest in Greenbriar Mall, Atlanta, for net proceeds of \$16.7 million and recognized a \$0.2 million loss on the sale. As a result of the disposition, a \$3.7 million cumulative foreign currency loss was released from the foreign currency translation adjustment that was recognized as part of the loss on disposal. In the year ended December 31, 2005, we recorded an impairment loss of \$11.5 million relating to Greenbriar Mall. The disposition of Greenbriar Mall has not been presented as a discontinued operation as we still have a significant continuing involvement in its operations.

Year ended December 31, 2006	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price	Fair value of mortgage assumed	Date acquired
	Park 19, Edmonton	100	48,000	100	\$ 2,726	\$ –	January 10, 2006
	70 Disco Road, Toronto	100	99,000	100	7,577	3,117	January 12, 2006
	SEC Portfolio, Québec	100	265,000	99	21,306	6,199	January 27, 2006
	2440 Scanlan Street, London	100	85,000	100	6,266	3,477	April 20, 2006
	Sherwood Place, Regina	100	182,000	99	33,206	14,442	April 21, 2006
	1400 boul. de la Rive Sud, Québec City	100	77,000	100	12,062	–	May 1, 2006
	4255 14th Avenue, Markham	100	57,000	100	5,914	–	May 1, 2006
	Princeton Portfolio, Western Canada	100	530,000	94	96,818	43,835	May 17, 2006
	10089 Jasper Avenue, Edmonton	100	86,000	–	4,160	–	May 29, 2006
	Barker Business Park (Phase II), Toronto	60	–	–	8,994	–	June 7, 2006
	Calgary Office Portfolio, Calgary	100	822,000	98	218,257	23,339	June 15, 2006
	Tullamore Business Park, Caledon	60	–	–	3,224	–	July 4, 2006
	Victoria Tower, Regina	100	144,000	100	17,815	8,621	July 21, 2006
	100 Legacy Road, Ottawa	100	103,000	100	8,906	–	August 1, 2006
	10079 Jasper Avenue, Edmonton	10	–	–	310	–	August 4, 2006
	Aviva Corporate Centre, Toronto	100	438,000	100	43,961	–	September 13, 2006
	Station Tower Lands, Surrey	100	–	–	3,728	–	September 21, 2006
	2121 Argentia Road, Mississauga	100	61,000	96	11,270	–	November 16, 2006
	Airport Corporate Centre West, Mississauga	100	357,000	86	66,253	–	November 28, 2006
	2891 Sunridge Way NE, Calgary	100	88,000	100	25,736	–	December 20, 2006
<b>Total</b>			<b>3,442,000</b>	<b>98</b>	<b>\$ 598,489</b>	<b>\$ 103,030</b>	

#### Acquisitions subsequent to year-end

Subsequent to year-end, we acquired two office buildings in Toronto, Ontario, totalling 426,000 square feet for approximately \$110.8 million, and an 83,000 square foot office building in New Westminster, B.C., for approximately \$14.6 million.

We currently have under contract, subject to a variety of conditions, approximately \$424.3 million of office and industrial properties totalling 2.7 million square feet.

#### Building improvements

	Three months ended December 31		Years ended December 31	
	2006	2005	2006	2005
<b>Building improvements</b>				
Recurring recoverable	\$ 2,306	\$ 1,855	\$ 5,066	\$ 2,569
Recurring non-recoverable	440	348	637	1,169
Non-recurring	698	2,352	3,325	4,791
<b>Total</b>	<b>\$ 3,444</b>	<b>\$ 4,555</b>	<b>\$ 9,028</b>	<b>\$ 8,529</b>

For the three-month period, capital expenditures or expenditures accrued for rental property building improvements and equipment were \$3.4 million (December 31, 2005 – \$4.5 million). Recurring recoverable costs incurred in the quarter included \$2.3 million for various roof, chiller and elevator replacements, as well as general building maintenance. Non-recurring costs in the quarter included \$0.7 million of construction costs related to various projects in our Montréal industrial portfolio. For the year, non-recurring costs included \$0.3 million of recoverable costs, \$1.3 million to complete a build-to-suit project and \$0.9 million in capitalized carrying costs for a property under redevelopment with the remainder relating to miscellaneous construction projects. The tenant took occupancy of the build-to-suit project and began paying rent in May 2006.

As part of our acquisition due diligence, we endeavour to identify any near-term capital expenditure requirements and factor those costs into our investment analysis and purchase price negotiations. Such potential expenditures are approved in the acquisition process and will be identified as incurred. There are no expected non-recoverable capital expenditures associated with acquisitions completed in the fourth quarter. Anticipated non-recoverable capital expenditures associated with acquisitions completed throughout 2006 are expected to be approximately \$7.8 million.

### Financing activities

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

The following table details our cash generated from financing activities:

	Three months ended December 31		Years ended December 31	
	2006	2005	2006	2005
Mortgages placed, net of costs	\$ 48,323	\$ 28,821	\$ 294,985	\$ 155,621
Mortgage principal repayments	(6,917)	(5,204)	(25,380)	(17,957)
Mortgage lump sum repayments	(32,429)	(6,378)	(79,486)	(46,076)
Term debt principal repayments	(66)	(121)	(364)	(501)
Term debt lump sum repayments	–	(5,417)	(14,957)	(7,492)
Term debt placed, net of costs	44	–	6,139	–
Convertible debentures issued, net of costs	–	(9)	–	95,443
Demand revolving credit facility, net	(10,362)	(21,577)	–	–
Demand non-revolving credit facility	–	–	–	(6,107)
Distributions paid on REIT Units	(15,138)	(7,909)	(50,074)	(31,700)
Units issued, net of costs	143,686	71,639	306,351	71,687
<b>Cash generated from financing activities</b>	<b>\$ 127,141</b>	<b>\$ 53,845</b>	<b>\$ 437,214</b>	<b>\$ 212,918</b>

### Debt

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

December 31	2006	2005
<b>Financing activities</b>		
Average interest rate	5.95%	6.16%
Level of debt (debt-to-gross book value)	50.6%	59.3%
Interest coverage ratio	2.46 times	2.22 times
Proportion of total debt due with one year	4.7%	7.2%
Debt – average term to maturity (years)	5.8	5.9
Variable rate debt as percentage of total debt	2.2%	1.6%

The interest coverage ratio, which reflects our ability to cover interest expense requirements, has improved steadily over the year to 2.46 times. This improvement reflects the reduction in our overall level of debt-to-gross book value to 50.6%, from 59.3% at the beginning of the year, as well as the lower average interest rate, now at 5.95% compared to 6.16% at the beginning of the year.

As a result of refinancing activity during the quarter, the proportion of total debt due in 2007 decreased to 4.7%. Our variable rate debt as a percentage of total debt increased during the year as a result of a variable rate mortgage placed on a redevelopment property. During the year, we drew \$58.1 million from our revolving credit facility, which we repaid by December 31, 2006. The facility is used as an interim measure until conventional mortgage debt or other long-term financing is in place.

December 31	2006			2005		
	Fixed	Variable	Total	Fixed	Variable	Total
Mortgages	\$ 1,036,909	\$ 19,402	\$ 1,056,311	\$ 756,920	\$ —	\$ 756,920
Term debt	2,238	5,526	7,764	271	15,062	15,333
Demand revolving credit facility	—	—	—	—	—	—
Debenture — 6.5%	24,438	—	24,438	72,478	—	72,478
Debenture — 5.7%	65,281	—	65,281	98,890	—	98,890
<b>Total</b>	<b>\$ 1,128,866</b>	<b>\$ 24,928</b>	<b>\$ 1,153,794</b>	<b>\$ 928,559</b>	<b>\$ 15,062</b>	<b>\$ 943,621</b>
Percentage	97.8%	2.2%	100%	98.4%	1.6%	100%

Mortgages payable include a \$9.6 million marked-to-market adjustment (December 31, 2005 – \$8.5 million) reflecting the fair value of mortgages assumed in connection with acquisitions. The marked-to-market adjustment and discount are amortized to interest expense over the term to maturity of the related debt. During the year, \$82.5 million of debentures were converted into 3,071,257 REIT Units. Amounts recorded as at December 31, 2006 for the 6.5% and 5.7% Debentures are net of the \$0.8 million premiums allocated to their conversion features. Further detail on the conversions is provided on page 47.

#### Debt-to-gross book value

Our Declaration of Trust limits our overall debt to 65% of gross book value. At December 31, 2006, our debt-to-gross book value decreased to 50.6% (December 31, 2005 – 59.3%) mainly as a result of funding \$598.5 million of acquisitions with the proceeds of equity offerings totalling \$306.4 million, combined with net proceeds from dispositions totalling \$24.9 million. In addition, as a result of the rising trading price of our units, we experienced a large volume of debenture conversions, which also contributed to a significant reduction in our debt-to-gross book value.

December 31	2006
Total assets	\$ 2,127,920
Accumulated depreciation	120,353
Accumulated amortization of acquired intangibles and leasing costs	32,559
<b>Gross book value</b>	<b>\$ 2,280,832</b>
Outstanding debt	\$ 1,153,794
Unamortized discount component of convertible debentures	794
<b>Total debt</b>	<b>\$ 1,154,588</b>
<b>Debt-to-gross book value</b>	<b>50.6%</b>

We consider our convertible debentures to be debt and treat them as such when computing our debt ratios. Assuming the conversion of all of the 6.5% and 5.7% Debentures, our debt-to-gross book value would decrease to 46.7%. Commencing January 1, 2006, we have included the accumulated amortization of tangible and intangible components related to acquired properties in our calculation of debt-to-gross book value to reflect the total cost added to the asset base. Comparative ratios have not been restated.

#### Financing activity

During the fourth quarter we secured approximately \$48.5 million in new mortgage financing, resulting in a year-to-date total of approximately \$296.8 million in new mortgages. The new financing was completed with an average term to maturity of 8.3 years and an average interest rate of 5.56%. As a result, our overall average interest rate decreased to 5.95% and our average term to maturity was extended to 5.8 years.



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

	Mortgages	Term debt	Revolving credit facility	Convertible debentures	Total
Debt as at December 31, 2005	\$ 756,920	\$ 15,333	\$ —	\$ 171,368	\$ 943,621
New debt assumed on rental property acquisitions	103,030	217	—	—	103,247
New debt placed	296,845	6,139	58,096	—	361,080
Vendor take-back term loan	5,355	1,395	—	—	6,750
Scheduled repayments	(25,380)	(363)	—	—	(25,743)
Lump sum repayments	(79,486)	(14,957)	(58,096)	—	(152,539)
Conversion to unit equity	—	—	—	(82,460)	(82,460)
Marked-to-market and other adjustments	(973)	—	—	811	(162)
<b>Debt as at December 31, 2006</b>	<b>\$ 1,056,311</b>	<b>\$ 7,764</b>	<b>\$ —</b>	<b>\$ 89,719</b>	<b>\$ 1,153,794</b>

In connection with acquisitions completed during the year, we assumed \$103.0 million in mortgages, with an average 3.3-year term to maturity and a weighted average interest rate of 5.35%.

December 31					<b>2006</b>	2005
	Debt maturities	Scheduled principal repayments on non-matured debt	Amount	%	Weighted average interest rate on balance due at maturity %	
2007	\$ 23,649	\$ 30,538	\$ 54,187	4.7	6.27	\$ 67,801
2008	110,155	30,421	140,576	12.2	6.51	53,582
2009	122,963	26,560	149,523	13.0	6.50	111,186
2010	38,629	23,819	62,448	5.4	5.58	131,354
2011	160,496	19,759	180,255	15.6	6.30	53,516
2012 and thereafter	519,905	46,900	566,805	49.1	5.67	526,182
<b>Total</b>	<b>\$ 975,797</b>	<b>\$ 177,997</b>	<b>\$ 1,153,794</b>	<b>100.0</b>	<b>5.98</b>	<b>\$ 943,621</b>

#### Convertible debentures

Throughout the year we issued 3,071,257 REIT Units upon the conversion of \$82.5 million of the principal amount of 6.5% Debentures and 5.7% Debentures.

With respect to the 6.5% Debenture, during the fourth quarter, we issued 177,400 REIT Units upon the conversion of \$4.4 million of the principal amount. In total, we issued 1,935,640 REIT Units upon the conversion of \$48.4 million of the principal amount in 2006. Subsequent to year-end, we issued an additional 119,960 REIT Units upon the conversion of \$3.0 million of the principal amount. The total principal amount outstanding at January 31, 2007, was \$21.6 million, and is convertible into 863,360 REIT Units.

**50.6%**  
debt-to-gross book value

*Throughout a year of exceptional growth we have remained focused on a healthy balance sheet. Our debt renewals and new debt financings resulted in a further reduction of our weighted average interest rate to 5.95% and a steady improvement of the interest coverage ratio to 2.46 times.*

With respect to the 5.7% Debenture, during the fourth quarter, we issued 1,132,652 REIT Units upon the conversion of \$34.0 million of the principal amount. In total, we issued 1,135,617 REIT Units upon the conversion of \$34.1 million of the principal amount in 2006. Subsequent to year-end, we issued an additional 374,458 REIT Units upon the conversion of \$11.2 million of the principal amount. The total principal amount outstanding at January 31, 2007, was \$54.7 million, and is convertible into 1,823,233 REIT Units.

### Equity

The following table summarizes the changes in our outstanding equity:

	REIT Units, Series A	LP Class B Units, Series 1	Total
Units issued and outstanding on December 31, 2005	20,449,209	8,337,365	28,786,574
Units issued pursuant to public offerings	10,190,000	—	10,190,000
Units issued pursuant to internalization of property manager	—	505,326	505,326
Units issued pursuant to DRIP	811,261	19,255	830,516
Units issued pursuant to Deferred Unit Incentive Plan	22,888	—	22,888
Units issued pursuant to Unit Purchase Plan	13,087	—	13,087
Conversion of 6.5% Debentures	1,935,640	—	1,935,640
Conversion of 5.7% Debentures	1,135,617	—	1,135,617
Exchange of LP B Units	296,851	(296,851)	—
<b>Total units outstanding on December 31, 2006</b>	<b>34,854,553</b>	<b>8,565,095</b>	<b>43,419,648</b>
<b>Percentage of all units</b>	<b>80.3%</b>	<b>19.7%</b>	<b>100.0%</b>
Units issued pursuant to DRIP on January 15, 2007	49,060	2,307	51,367
Units issued pursuant to Unit Purchase Plan	—	—	—
Conversion of 6.5% Debentures	119,960	—	119,960
Conversion of 5.7% Debentures	374,458	—	374,458
Exchange of LP B Units	487,409	(487,409)	—
Redemption of REIT Units	(100)	—	(100)
Total units outstanding on January 31, 2007	35,885,340	8,079,993	43,965,333
<b>Percentage of all units</b>	<b>81.6%</b>	<b>18.4%</b>	<b>100%</b>

### Public offering of units

On December 12, 2006, we completed a public offering of 4,110,000 REIT Units for gross cash proceeds of \$150.0 million at a price of \$36.50 per unit. Costs related to the offering were \$6.5 million and were charged to unitholders' equity.

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

On April 7, 2006, we completed a public offering of 2,200,000 REIT Units for gross cash proceeds of \$61.0 million at a price of \$27.75 per unit. On April 28, 2006, we issued an additional 320,000 REIT Units for gross proceeds of approximately \$8.9 million

**\$320**  
million of equity offerings

*In 2006, we completed three equity offerings totalling \$320 million and issued 10.2 million units. The offerings were very well received and helped increase our market capitalization to \$1.7 billion at year-end, up from \$740 million a year ago. As a result of our increased market capitalization and heavier trading activity in our units, Dundee REIT was added to the S&P/TSX Composite Index in December.*

pursuant to the exercise of the over-allotment option granted to the underwriters. The exercise of the over-allotment option increased the total gross proceeds of the offering to approximately \$69.9 million. Costs relating to the offering were \$3.2 million and were charged directly to unitholders' equity.

On February 12, 2007 we announced that we have entered into an agreement to issue 3,700,000 REIT Units, at a price of \$40.75 per unit for gross proceeds of \$150.8 million. Costs relating to the offering are estimated to be \$6.6 million. In addition, we have granted the underwriters an over-allotment option up to an additional 555,000 REIT Units, which, if exercised, would increase the gross offering to \$173.4 million.

## Our results of operations

	Three months ended December 31		Years ended December 31	
	2006	2005	2006	2005
<b>Revenues</b>				
Rental properties revenue	\$ 81,995	\$ 60,391	\$ 287,794	\$ 220,615
Interest and fee income	1,257	397	3,646	2,144
	<b>83,252</b>	60,788	<b>291,440</b>	222,759
<b>Expenses</b>				
Rental properties operating expenses	34,959	27,190	122,150	99,176
Interest	17,307	14,701	66,052	53,960
Depreciation of rental properties	11,259	8,088	39,850	29,459
Amortization of deferred leasing costs, tenant improvements and intangibles	9,384	5,908	30,614	19,508
General and administrative	1,861	1,640	6,812	5,408
	<b>74,770</b>	57,527	<b>265,478</b>	207,511
<b>Income before the undernoted items</b>	<b>8,482</b>	3,261	<b>25,962</b>	15,248
Internalization of property manager	(615)	—	(13,678)	—
Loss on disposal of rental property	9	—	(220)	—
Provision for impairment in value of rental property	—	(11,533)	—	(11,533)
Dilution gain	—	296	—	1,890
<b>Income (loss) before income and large corporations taxes</b>	<b>7,876</b>	(7,976)	<b>12,064</b>	5,605
<b>Income taxes</b>				
Current income and large corporations taxes	22	49	62	181
Future income taxes	(111)	(4,287)	2,314	(3,653)
	<b>(89)</b>	(4,238)	<b>2,376</b>	(3,472)
<b>Income (loss) before non-controlling interest and discontinued operations</b>	<b>7,965</b>	(3,738)	<b>9,688</b>	9,077
<b>(Income) loss attributable to non-controlling interest</b>	<b>—</b>	1,192	<b>(1,840)</b>	(2,511)
<b>Income (loss) before discontinued operations</b>	<b>7,965</b>	(2,546)	<b>7,848</b>	6,566
<b>Discontinued operations</b>	<b>(13)</b>	(2,469)	<b>3,370</b>	(2,257)
<b>Net income (loss)</b>	<b>\$ 7,952</b>	\$ (5,015)	<b>\$ 11,218</b>	\$ 4,309

### Rental properties revenue

Revenues include net rental or basic income from rental properties as well as the recovery of operating costs, property taxes, parking revenues and other miscellaneous revenues from tenants. The increase in rental property revenue is primarily a result of additional revenues generated by acquisitions as well as receiving 100% of the fees earned by the property manager, effective May 1, 2006.

### Interest and fee income

Interest and fee income represents amounts for items such as fees earned from third-party property management including management, construction and leasing fees, and interest on bank accounts and related fees. These revenues and expenses are not necessarily of a recurring nature and the amounts will vary from quarter to quarter. Our results for the quarter include \$0.2 million in one-time leasing fees.

### Rental properties operating expenses

Operating expenses mainly comprise 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 \$7.8 million or 29% increase in operating expenses over the comparative quarter mainly reflects the additional costs of managing a larger portfolio of properties.

### Interest expense

The \$2.6 million or 18% increase in interest expense for the three-month period was mainly the result of additional debt incurred in connection with acquisitions. Although the overall dollar amount of our debt increased, the impact on interest expense was mitigated to some extent by the reduction in our weighted average interest rate to 5.95% compared with 6.16% at December 31, 2005.

### Depreciation of rental properties

Depreciation increased by \$3.2 million or 39% compared with the same quarter in 2005 mainly as a result of acquisitions.

### Amortization of deferred leasing costs, tenant improvements and intangibles

Amortization increased by \$3.5 million or 59% over the comparative period, largely due to the allocation of a portion of the purchase price on new acquisitions to intangibles, and the write-off of amounts related to a tenant whose lease was renegotiated.

### General and administrative expenses

General and administrative expenses primarily comprise the expenses related to corporate management, trustees' fees and expenses, and investor relations for the Trust and its subsidiaries. Expenses for the quarter were \$1.9 million, an increase of \$0.2 million or 13% over the comparative period reflecting the growth of our business and the additional costs resulting from the internalization of the property manager. The increase in expense is offset by increased property management fees as we now own 100% of the property manager.

### Dilution gain

The dilution gain in 2005 resulted from the additional LP B Units issued pursuant to the DRIP, which caused the dilution of our ownership of Dundee Properties Limited Partnership ("DPLP"). As of August 2005, the holders of LP B Units have elected to reinvest their distributions in REIT Units, and as a result our ownership is no longer being diluted. The holder of the LP B Units issued on the internalization of the property manager, including the issued units held in trust, reinvests their distributions in LP B Units. As a result of the reclassification of the LP B Units to equity effective May 1, 2006, no further dilution gain will be reported.

### Income tax expense

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

### Discontinued operations

Discontinued operations include assets that have been categorized as held for sale or sold and meet specific criteria as discontinued assets in accordance with GAAP. These assets and operations are disclosed separately on the income statement and balance sheet.

### Related-party transactions and arrangements

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

During the year, we received \$1.3 million in fees related to the rent supplement and \$1.4 million related to the DRC services agreement. We also incurred \$1.9 million of management fee expenses paid under the Management Agreement prior to May 1, 2006.

### Net operating income

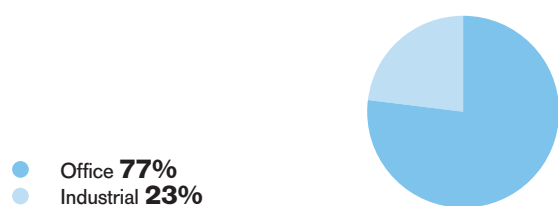
Net operating income ("NOI") is an important measure used by management to evaluate the operating performance of the properties. We define NOI as the total of rental property revenues less rental property operating expenses. NOI for the quarter increased 45% over the comparative period, primarily due to income generated by properties acquired in 2006, and properties acquired in the fourth quarter of 2005 that are contributing to the full quarter this year. NOI for the year increased 39% or \$45.2 million reflecting strong growth in our comparative office portfolio and the impact of acquisitions completed over the last two years. Our comparative industrial portfolio performance remained stable for the year with growth coming from acquisitions. Redevelopment properties include the results of Greenbriar Mall, Atlanta. Discontinued operations reflects the results of Kameyosek Shopping Centre which was sold on June 29, 2006, and 2301 and 2311 Royal Windsor Drive and Simcoe Town Centre, sold in 2005.

	Three months ended December 31					Years ended December 31				
	2006		2005		Growth Amount %	2006		2005		Growth Amount %
	\$	\$	\$	\$		\$	\$	\$	\$	
Office	\$ 35,699	\$ 23,380	\$ 12,319	53	\$ 121,347	\$ 83,793	\$ 37,554	45		
Industrial	10,559	8,628	1,931	22	41,094	33,464	7,630	23		
<b>NOI</b>	<b>46,258</b>	<b>32,008</b>	<b>14,250</b>	<b>45</b>	<b>162,441</b>	<b>117,257</b>	<b>45,184</b>	<b>39</b>		
Redevelopment	778	1,192	(414)		3,203	4,182	(979)			
Discontinued operations	-	356	(356)		263	1,386	(1,123)			
<b>NOI including redevelopment and discontinued operations</b>	<b>\$ 47,036</b>	<b>\$ 33,556</b>	<b>\$ 13,480</b>	<b>40</b>	<b>\$ 165,907</b>	<b>\$ 122,825</b>	<b>\$ 43,082</b>	<b>35</b>		

	Three months ended December 31					Years ended December 31				
	2006		2005		Growth Amount %	2006		2005		Growth Amount %
	\$	\$	\$	\$		\$	\$	\$	\$	
Québec	\$ 8,569	\$ 7,600	\$ 969	13	\$ 34,210	\$ 27,515	\$ 6,695	24		
National Capital Region	6,183	5,099	1,084	21	24,210	17,013	7,197	42		
Toronto Region	13,310	10,841	2,469	23	47,895	40,054	7,841	20		
Alberta	13,612	7,132	6,480	91	42,747	27,410	15,337	56		
Western Canada	4,584	1,336	3,248	243	13,379	5,265	8,114	154		
<b>NOI</b>	<b>46,258</b>	<b>32,008</b>	<b>14,250</b>	<b>45</b>	<b>162,441</b>	<b>117,257</b>	<b>45,184</b>	<b>39</b>		
Redevelopment	778	1,192	(414)		3,203	4,182	(979)			
Discontinued operations	-	356	(356)		263	1,386	(1,123)			
<b>NOI including redevelopment and discontinued operations</b>	<b>\$ 47,036</b>	<b>\$ 33,556</b>	<b>\$ 13,480</b>	<b>40</b>	<b>\$ 165,907</b>	<b>\$ 122,825</b>	<b>\$ 43,082</b>	<b>35</b>		

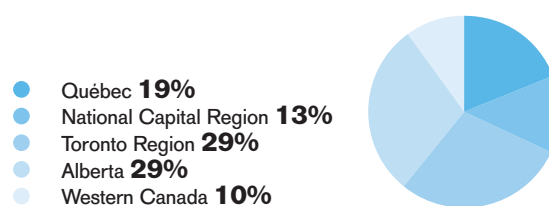
### NOI by segment

Three months ended December 31, 2006



### NOI by region

Three months ended December 31, 2006



**NOI comparative portfolio**

NOI shown below highlights comparative and non-comparative items to assist in understanding the impact each component has on NOI. We have classified our remaining interest in Greenbriar Mall as a redevelopment property, reflecting the fact that we no longer actively manage the property, which is being redeveloped by our partner. The discontinued operations that contributed to NOI are shown separately to conform with the required income statement presentation. Comparative NOI and acquisitions exclude GAAP adjustments that relate to straight-line rents and amortization of market rent adjustments on acquired leases.

	Three months ended December 31					Years ended December 31				
	2006	2005	Growth		2006	2005	Growth			
			Amount	%			Amount	%		
Office	\$ 18,584	\$ 17,612	\$ 972	6	\$ 72,691	\$ 68,689	\$ 4,002	6		
Industrial	7,328	7,193	135	2	28,874	28,463	411	1		
<b>Comparative properties</b>	<b>25,912</b>	24,805	1,107	4	<b>101,565</b>	97,152	4,413	5		
Acquisitions	17,840	5,840	12,000		52,394	13,882	38,512			
Rent supplement	150	458	(308)		1,336	2,272	(936)			
GAAP adjustments	2,356	905	1,451		7,146	3,951	3,195			
<b>NOI</b>	<b>46,258</b>	32,008	14,250	45	<b>162,441</b>	117,257	45,184	39		
Redevelopment	778	1,192	(414)		3,203	4,182	(979)			
Discontinued operations	–	356	(356)		263	1,386	(1,123)			
<b>NOI including redevelopment and discontinued operations</b>	<b>\$ 47,036</b>	\$ 33,556	\$ 13,480	40	<b>\$ 165,907</b>	\$ 122,825	\$ 43,082	35		

	Three months ended December 31					Years ended December 31				
	2006	2005	Growth		2006	2005	Growth			
			Amount	%			Amount	%		
Québec	\$ 5,072	\$ 5,183	\$ (111)	(2)	\$ 20,491	\$ 20,384	\$ 107	1		
National Capital Region	3,712	3,299	413	13	14,419	13,311	1,108	8		
Toronto Region	8,868	8,612	256	3	34,530	33,092	1,438	4		
Alberta	6,896	6,366	530	8	26,711	25,128	1,583	6		
Western Canada	1,364	1,345	19	1	5,414	5,237	177	3		
<b>Comparative properties</b>	<b>25,912</b>	24,805	1,107	4	<b>101,565</b>	97,152	4,413	5		
Acquisitions	17,840	5,840	12,000		52,394	13,882	38,512			
Rent supplement	150	458	(308)		1,336	2,272	(936)			
GAAP adjustments	2,356	905	1,451		7,146	3,951	3,195			
<b>NOI</b>	<b>46,258</b>	32,008	14,250	45	<b>162,441</b>	117,257	45,184	39		
Redevelopment	778	1,192	(414)		3,203	4,182	(979)			
Discontinued operations	–	356	(356)		263	1,386	(1,123)			
<b>NOI including redevelopment and discontinued operations</b>	<b>\$ 47,036</b>	\$ 33,556	\$ 13,480	40	<b>\$ 165,907</b>	\$ 122,825	\$ 43,082	35		

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

The rent supplement from DRC contributed \$0.2 million for the quarter. The rent supplement represents amounts funded by DRC based on specific vacancies as previously agreed to upon the formation of Dundee REIT and as included in the property management agreement. This rent supplement will fluctuate as leasing of supplemented space occurs. The supplement commenced July 1, 2003, and is effective for five years for office and three years for industrial space. The rent supplement decreased in the quarter as a result of leasing activity in supplemented office space, and the expiry of the supplement period for industrial properties on June 30, 2006.

## Comparative office portfolio

	Three months ended December 31					Years ended December 31				
	2006		2005		Growth Amount %	2006		2005		Growth Amount %
	\$	\$	\$	\$		\$	\$	\$	\$	
Québec	\$ 2,660	\$ 2,763	\$ (103)	(4)	\$ 11,140	\$ 10,861	\$ 279	3		
National Capital Region	3,712	3,299	413	13	14,419	13,311	1,108	8		
Toronto Region	6,961	6,617	344	5	26,612	24,969	1,643	7		
Alberta	3,887	3,588	299	8	15,106	14,311	795	6		
Western Canada	1,364	1,345	19	1	5,414	5,237	177	3		
<b>Comparative properties</b>	<b>18,584</b>	<b>17,612</b>	<b>972</b>	<b>6</b>	<b>72,691</b>	<b>68,689</b>	<b>4,002</b>	<b>6</b>		
Acquisitions	14,928	4,609	10,319		42,224	10,466	31,758			
Rent supplement	149	376	(227)		555	1,504	(949)			
GAAP adjustments	2,038	783	1,255		5,877	3,134	2,743			
<b>Office NOI</b>	<b>\$ 35,699</b>	<b>\$ 23,380</b>	<b>\$ 12,319</b>	<b>53</b>	<b>\$ 121,347</b>	<b>\$ 83,793</b>	<b>\$ 37,554</b>	<b>45</b>		

Our comparative office portfolio remains well occupied with the National Capital Region, Alberta and Western Canada portfolios offering less than 4% vacancy. Growth in comparative NOI from the office portfolio is largely a result of improved occupancy and higher rental rates achieved on renewals and new leasing. Our Québec office portfolio reported modest NOI growth for the year mainly as a result of an increase in occupancy offset by a \$0.2 million bad debt provision related to a single tenant in the fourth quarter. Growth in the National Capital Region was mainly due to increases in rental rates and additional recovery revenue on gross leases that were converted to net leases. Growth in the Toronto Region reflects improved occupancy as well as renewals and new leasing occurring at market rates. In the prior year, the Toronto Region's results were impacted by a \$0.4 million one-time expense. Our Alberta portfolio is virtually fully occupied, reflecting the market in general. Given the current state of the Alberta rental market, we are well positioned to convert tenant expiries at market rental rates. In 2006, approximately 6% of our Alberta portfolio expired; 2007 expiries are approximately 10% of our portfolio allowing us to continue to re-lease at market rental rates. Total office NOI grew by \$12.3 million and \$37.6 million in the respective three- and twelve-month periods fuelled by the contribution from acquisitions.

## Comparative properties NOI

**+5%**  
in 2006

*Internal growth – driven by occupancy and rising rental rates – is a critical driver of our success. For six quarters in a row we have produced growth in net operating income on a comparative property basis. And, we expect that the performance of our comparative properties will continue to grow in 2007.*

*Comparative industrial portfolio*

	Three months ended December 31					Years ended December 31						
	2006		2005		Growth		2006		2005		Growth	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Québec	\$ 2,412		\$ 2,420		\$ (8)	–	\$ 9,351		\$ 9,523		\$ (172)	(2)
Toronto Region	1,907		1,995		(88)	(4)	7,918		8,123		(205)	(3)
Alberta	3,009		2,778		231	8	11,605		10,817		788	7
<b>Comparative properties</b>	<b>7,328</b>		<b>7,193</b>		<b>135</b>	<b>2</b>	<b>28,874</b>		<b>28,463</b>		<b>411</b>	<b>1</b>
Acquisitions	2,912		1,231		1,681		10,170		3,416		6,754	
Rent supplement	1		82		(81)		781		768		13	
GAAP adjustments	318		122		196		1,269		817		452	
<b>Industrial NOI</b>	<b>\$ 10,559</b>		<b>\$ 8,628</b>		<b>\$ 1,931</b>	<b>22</b>	<b>\$ 41,094</b>		<b>\$ 33,464</b>		<b>\$ 7,630</b>	<b>23</b>

Comparative industrial property performance increased marginally for both the three- and twelve-month periods. Strong occupancy driven results in Alberta offset slightly weaker results in the balance of our industrial portfolio. In our Alberta portfolio, enhanced performance was driven by increased occupancy as well as rental rate uplifts achieved on renewals and new leasing. The decrease in the Québec and Toronto Region portfolios is attributable to a slight decline in occupancy mainly related to isolated tenant failures during 2006. Total NOI improved by \$1.9 million and \$7.6 million in the respective three- and twelve-month periods, again fuelled by the contribution from acquisitions. Effective July 1, 2006, the rent supplement for industrial space expired.

*NOI prior quarter comparison*

Overall, comparative properties are maintaining a high level of occupancy, achieving incremental improvements in rental rates and producing modest growth in NOI. Total NOI grew 3% quarter-over-quarter largely reflecting the impact of acquisitions as well as leasing activity in Alberta.

Three months ended	December 31, 2006		September 30, 2006		Growth	
	Amount	%	Amount	%	Amount	%
Office	\$ 18,584		\$ 18,259		\$ 325	2
Industrial	7,328		7,394		(66)	(1)
<b>Comparative properties</b>	<b>25,912</b>		<b>25,653</b>		<b>259</b>	<b>1</b>
Acquisitions	17,840		16,189		1,651	
Rent supplement	150		323		(173)	
GAAP adjustments	2,356		2,797		(441)	
<b>NOI</b>	<b>46,258</b>		<b>44,962</b>		<b>1,296</b>	<b>3</b>
Redevelopment	778		436		342	
Discontinued operations	–		(55)		55	
<b>NOI including discontinued operations</b>	<b>\$ 47,036</b>		<b>\$ 45,343</b>		<b>\$ 1,693</b>	<b>4</b>



Three months ended	December 31, <b>2006</b>	September 30, 2006	Growth	
			Amount	%
Québec	\$ 5,072	\$ 5,208	\$ (136)	(3)
National Capital Region	3,712	3,620	92	3
Toronto Region	8,868	8,807	61	1
Alberta	6,896	6,678	218	3
Western Canada	1,364	1,340	24	2
<b>Comparative properties</b>	<b>25,912</b>	<b>25,653</b>	<b>259</b>	<b>1</b>
Acquisitions	17,840	16,189	1,651	
Rent supplement	150	323	(173)	
GAAP adjustments	2,356	2,797	(441)	
<b>NOI</b>	<b>46,258</b>	<b>44,962</b>	<b>1,296</b>	<b>3</b>
Redevelopment	778	436	342	
Discontinued operations	-	(55)	55	
<b>NOI including discontinued operations</b>	<b>\$ 47,036</b>	<b>\$ 45,343</b>	<b>\$ 1,693</b>	<b>4</b>

Quarter-over-quarter comparative property NOI remained relatively consistent with increased occupancy and rental rates in our office portfolio driving the \$0.3 million improvement in the fourth quarter. Current and prior year acquisitions contributed an increase of \$1.7 million compared to the prior quarter.

### Selected annual information

The following table provides select financial information for the past three years:

December 31	<b>2006</b>	2005	2004
Revenues	\$ 291,440	\$ 222,759	\$ 186,756
Income before discontinued operations	7,848	6,566	14,813
Net income	11,218	4,309	4,353
Total assets	2,127,920	1,507,713	1,199,792
Debt	1,153,794	943,621	693,155
Distributions declared	76,511	56,072	52,595
Per unit amounts:			
Basic income from continuing operations	\$ 0.25	\$ 0.38	\$ 0.92
Basic net income	0.35	0.25	0.27
Diluted income from continuing operations	0.25	0.29	0.82
Diluted net income	0.35	0.16	0.18

## Quarterly information

The following tables show quarterly information since January 1, 2005.

	Q4 <b>2006</b>	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
<b>Revenues</b>								
Rental properties revenue	\$ 81,995	\$ 76,778	\$ 66,051	\$ 62,970	\$ 60,391	\$ 57,385	\$ 52,720	\$ 50,119
Interest and fee income	1,257	1,038	852	499	397	410	619	718
	<b>83,252</b>	77,816	66,903	63,469	60,788	57,795	53,339	50,837
<b>Expenses</b>								
Rental properties operating expenses	34,959	31,380	27,744	28,067	27,190	25,216	23,427	23,343
Interest	17,307	17,934	15,833	14,978	14,701	14,378	13,215	11,666
Depreciation of rental properties	11,259	10,824	9,227	8,540	8,087	7,967	6,800	6,604
Amortization of deferred leasing costs, tenant improvements and intangibles	9,384	9,007	6,513	5,710	5,907	5,565	4,405	3,630
General and administrative	1,861	1,688	1,755	1,508	1,641	1,362	1,245	1,161
	<b>74,770</b>	70,833	61,072	58,803	57,526	54,488	49,092	46,404
<b>Income before the undernoted items</b>								
	<b>8,482</b>	6,983	5,831	4,666	3,262	3,307	4,247	4,433
Provision for impairment in value of rental property	-	-	-	-	(11,533)	-	-	-
Internalization of property manager	(615)	27	(13,090)	-	-	-	-	-
Gain (loss) on disposal of rental property	9	(445)	216	-	-	-	-	-
Dilution gain	-	-	-	-	296	269	652	673
<b>Income (loss) before income and large corporations taxes</b>								
	<b>7,876</b>	6,565	(7,043)	4,666	(7,975)	3,576	4,899	5,106
<b>Income taxes</b>								
Current income and large corporations taxes	22	(81)	76	45	49	44	41	47
Future income taxes (recovery)	(111)	(202)	2,453	174	(4,286)	259	183	192
Income tax expense (recovery)	(89)	(283)	2,529	219	(4,237)	303	224	239
<b>Income (loss) before non-controlling interest and discontinued operations</b>								
	<b>7,965</b>	6,848	(9,572)	4,447	(3,738)	3,273	4,675	4,867
Loss (income) attributable to non-controlling interest	-	-	(517)	(1,323)	1,192	(1,007)	(1,330)	(1,366)
<b>Income (loss) before discontinued operations</b>								
	<b>7,965</b>	6,848	(10,089)	3,124	(2,546)	2,266	3,345	3,501
Discontinued operations	(13)	(25)	3,343	65	(2,469)	(43)	75	180
<b>Net income (loss)</b>								
	<b>\$ 7,952</b>	\$ 6,823	\$ (6,746)	\$ 3,189	\$ (5,015)	\$ 2,223	\$ 3,420	\$ 3,681
<b>Net income (loss) per unit</b>								
Basic	\$ 0.24	\$ 0.19	\$ (0.23)	\$ 0.15	\$ (0.28)	\$ 0.13	\$ 0.20	\$ 0.22
Diluted <sup>1</sup>	\$ 0.24	\$ 0.19	\$ (0.23)	\$ 0.15	\$ (0.29)	\$ 0.12	\$ 0.17	\$ 0.18

<sup>1</sup> 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

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
<b>Net income (loss)</b>	<b>\$ 7,952</b>	\$ 6,823	\$ (6,746)	\$ 3,189	\$ (5,015)	\$ 2,223	\$ 3,420	\$ 3,681
Add (deduct):								
Depreciation of rental properties	11,259	10,824	9,255	8,570	8,117	8,053	6,884	6,689
Amortization of deferred leasing costs and intangibles	9,384	9,007	6,527	5,725	5,918	5,765	4,524	3,778
Future income tax	(111)	(202)	2,453	174	(4,286)	259	183	192
Imputed amortization of leasing costs related to the rent supplement	81	68	289	256	318	168	204	487
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(17)	(18)	(13)	(5)	(6)	(4)	(3)	(5)
Dilution gain	–	–	–	–	(296)	(269)	(652)	(673)
(Gain) loss on disposal of rental properties	4	415	(3,453)	24	3,837	–	25	(242)
Provision for impairment in value of rental property	–	–	–	–	11,533	–	–	–
Internalization of property manager	615	(27)	13,090	–	–	–	–	–
Non-controlling interest	–	–	527	1,349	(2,281)	986	1,367	1,451
<b>Funds from operations</b>	<b>\$ 29,167</b>	\$ 26,890	\$ 21,929	\$ 19,282	\$ 17,839	\$ 17,181	\$ 15,952	\$ 15,358
<b>Funds from operations per unit</b>								
Basic <sup>1</sup>	\$ 0.74	\$ 0.74	\$ 0.67	\$ 0.67	\$ 0.68	\$ 0.68	\$ 0.64	\$ 0.62
Diluted	\$ 0.71	\$ 0.70	\$ 0.64	\$ 0.63	\$ 0.64	\$ 0.63	\$ 0.60	\$ 0.60
<b>Cash generated from operating activities</b>	<b>\$ 24,003</b>	\$ 22,058	\$ 24,634	\$ 17,167	\$ 13,204	\$ 16,351	\$ 19,862	\$ 13,575
Add (deduct):								
Deferred leasing costs incurred	2,352	972	1,739	1,034	1,602	831	1,034	973
Amortization of deferred financing costs incurred prior to June 30, 2003	65	81	94	94	94	98	87	87
Amortization of non-recoverable deferred costs incurred prior to June 30, 2003	16	17	19	21	25	78	4	4
Amortization of tenant inducements	20	–	–	–	–	–	–	–
Amortization of costs not specific to real estate operations incurred subsequent to June 30, 2003	(17)	(18)	(13)	(5)	(4)	(4)	(3)	(5)
Amortization of deferred leasing costs incurred subsequent to June 30, 2003	–	–	–	–	–	–	–	–
Imputed amortization of leasing costs related to the rent supplement	–	–	–	–	–	–	–	–
Loss (gain) on disposal of rental property	–	–	(25)	25	–	–	–	–
Amortization of deferred financing costs	(445)	(619)	(425)	(433)	(415)	(440)	(401)	(296)
Change in non-cash working capital	660	1,378	(5,524)	77	2,040	(924)	(6,374)	(654)
<b>Distributable income</b>	<b>\$ 26,654</b>	\$ 23,869	\$ 20,499	\$ 17,980	\$ 16,546	\$ 15,990	\$ 14,209	\$ 13,684
<b>Distributable income per unit</b>								
Basic <sup>1</sup>	\$ 0.67	\$ 0.66	\$ 0.63	\$ 0.62	\$ 0.63	\$ 0.63	\$ 0.57	\$ 0.55
Diluted	\$ 0.65	\$ 0.63	\$ 0.60	\$ 0.59	\$ 0.60	\$ 0.59	\$ 0.54	\$ 0.54
<b>Weighted average units outstanding for FFO and DI</b>								
Basic	39,588,295	36,350,417	32,727,091	28,968,219	26,266,118	25,387,969	25,081,201	24,865,912
Diluted	43,447,393	42,292,776	38,953,240	35,281,362	32,562,042	31,712,785	31,480,407	27,924,777

<sup>1</sup> The LP Class B Units, Series 1 are included in the calculation of Basic FFO per unit and Basic DI per unit.

For the period-end, occupied and committed space is as follows:

(%)	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Office	97.0	96.4	96.1	96.1	96.3	95.5	95.7	94.7
Industrial	95.6	95.9	95.7	95.2	96.2	97.0	96.3	96.0
Overall	96.4	96.2	95.9	95.6	96.3	96.1	95.8	95.2

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

### Section III – Disclosure controls and procedures

As of December 31, 2006, the Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the design and effectiveness of Dundee REIT's disclosure controls and procedures, as defined in Multilateral Instrument 52-109. They have concluded that the disclosure controls and procedures were adequate and effective to provide reasonable assurance that material information relating to Dundee REIT and its consolidated subsidiary entities for the year ended December 31, 2006, would have been made known to them.

In addition, as of December 31, 2006, the Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the design of the Dundee REIT's internal controls over financial reporting. The internal controls were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. They have concluded that the design of the internal controls over financial reporting were adequate and effective to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. There were no significant changes made to the internal controls in 2006.

### Occupancy



*Our overall occupancy reached an all-time high of 96.4% at year-end. The occupancy rate of our office portfolio, at 97.0%, remains well ahead of the national industry average. And, our industrial portfolio occupancy remains strong at 95.6%, also slightly ahead of the industry average.*

## Section IV – Risks and our strategy to manage

Dundee REIT is exposed to various risks and uncertainties. Risks and uncertainties inherent in an investment in our units include but are not limited to the following:

### Real estate ownership

Real estate ownership is generally subject to numerous risks, including changes in general economic conditions, such as the availability and cost of mortgage funds, local economic conditions (such as an oversupply of office, industrial and retail properties or a reduction in demand for real estate in the area), the attractiveness of properties to potential tenants or purchasers, competition of others with available space, the ability of the owner to provide adequate maintenance at an economic cost and other factors.

Our portfolio of properties generates income through rent payments made by our tenants. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced for a number of reasons. Furthermore, the terms of any subsequent lease may be less favourable than the existing lease. Our financial position would be adversely affected if a number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in the properties were not able to be leased on economically favourable lease terms. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting our investment may be incurred. Furthermore, at any time, a tenant may seek the protection of bankruptcy, insolvency or similar laws which could result in the rejection and termination of the lease of such tenant and, thereby, cause a reduction in the cash flow available to us.

Diversity mitigates risk. The diversity of our portfolio by asset type and geographic location helps to minimize our exposure to any single market or asset class. We also attempt to stagger lease maturities to protect against large vacancies in any given year or market. Further, Dundee REIT has a broad tenant base with the largest tenant occupying less than 5% of gross leaseable area and comprising 6.3% of our gross rental revenue. For further information, please see the “Leasing profile” discussion beginning on page 31.

### Illiquidity of real estate investments

An investment in real estate is relatively illiquid. Such illiquidity will tend to limit our ability to vary our portfolio promptly in response to changing economic or investment conditions. In recessionary times it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable and during an economic recession we may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary for us to dispose of properties at lower prices in order to generate sufficient cash for operations and making distributions. We manage our portfolio actively and are attentive to market conditions and property values. We review our properties on an ongoing basis to identify strengths and weaknesses of individual properties and our portfolio as a whole, allowing us to quickly reposition assets when warranted or identify non-core or under-performing assets for disposition.

### Competition in the office, industrial and retail real estate market

We compete with other investors, managers and owners of properties in seeking tenants and for the purchase and development of desirable real estate properties. Some of the commercial office, industrial and retail properties of our competitors are newer, better located or better capitalized than our properties. Certain of these competitors have greater financial and other resources and greater operating flexibility than us. The existence of competing managers and owners could have a material adverse effect on our ability to lease space in our properties and on the rents we are able to charge, and could adversely affect our revenues and our ability to meet our obligations. We strive to deliver a level of service that meets or exceeds tenant expectations. We believe that providing a consistent, high level of service puts us in a better position to re-lease space to existing tenants and helps to attract new tenants to lease vacant space quickly and cost effectively.

### **Environmental risk**

As an owner of real property, we are subject to various federal, provincial, state and municipal laws relating to environmental matters. Such laws provide a range of potential liability, including potentially significant penalties, and potential liability for the costs of removal or remediation of certain hazardous substances. The presence of such substances, if any, could adversely affect our ability to sell or redevelop such real estate or to borrow using such real estate as collateral and, potentially, could also result in civil claims against us. In order to obtain financing for the purchase of a new property through traditional channels, we may be requested to arrange for an environmental audit to be conducted. Although such an audit provides us and our lenders with some assurance, we may become subject to liability for undetected pollution or other environmental hazards on our properties against which we cannot insure, or against which we may elect not to insure where premium costs are disproportionate to our perception of relative risk.

We have formal policies and procedures to review and monitor environmental exposure. These policies include the requirement to obtain a Phase I Environmental Site Assessment, conducted by an independent and qualified environmental consultant, before acquiring any real property or any interest therein.

### **Financing risk**

Upon the expiry of the term of the financing or refinancing of any particular property or operating or acquisition debt facilities, refinancing may not be available in the amounts required or may be available only on terms less favourable to us than existing financing. We may require additional financing in order to grow and expand our operations. It is possible that such financing will not be available or, if it is available, will not be available on favourable terms. Future financing may take many forms, including debt or equity financing, which could alter the current debt-to-equity ratio or which could be dilutive to our unitholders. It is our intent to reduce the interest rate risk associated with refinancing by ensuring that debt maturities are staggered over several years, with limited exposure in any given year. In 2007, our exposure is limited to \$54.2 million rolling at a 6.24% weighted average interest rate, which in the context of our business is not significant. For further information, please see the "Our resources and financial condition" discussion beginning on page 29.

### **Insurance**

We carry general liability, umbrella liability and excess liability insurance with a total limit of \$61,000,000. For the property risks we carry "All Risks" property insurance including but not limited to flood, earthquake and loss of rental income insurance (with a 24-month indemnity period). We also carry Boiler and Machinery insurance covering all boilers, pressure vessels, HVAC systems and equipment breakdown. There are, however, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident) that are uninsurable under any insurance policy. Furthermore there are other risks that are not economically viable to insure at this time. We currently self-insure against terrorism risk for the entire Canadian portfolio. We have insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements. Should an uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of the properties, but we would continue to be obligated to repay any recourse mortgage indebtedness on such properties. Additionally, we generally have owners' title insurance policies with respect to our properties located in the United States. However, the amount of coverage under such policies may be less than the full value of such properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, we could lose all or part of our investment in, and anticipated profits and cash flows from, such property.

### **Joint venture, partnership and co-ownership agreements**

We are a participant in joint ventures and partnerships with third parties in respect of four of the properties. A joint venture or partnership involves certain additional risks, including,

- i* the possibility that such co-venturers/partners may at any time have economic or business interests or goals that will be inconsistent with ours or take actions contrary to our instructions or requests or to our policies or objectives with respect to our real estate investments;
- ii* the risk that such co-venturers/partners could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands on us to maintain and operate such properties or repay the co-venturers/partners' share of property debt guaranteed by us or for which we will be liable and/or result in our suffering or incurring delays, expenses and other problems associated with obtaining court approval of joint venture or partnership decisions;
- iii* the risk that such co-venturers/partners may, through their activities on behalf of or in the name of the ventures or partnerships, expose or subject us to liability; and
- iv* the need to obtain co-venturers/partners' consents with respect to certain major decisions, including the decision to distribute cash generated from such properties or to refinance or sell a property. In addition, the sale or transfer of interests in certain of the joint ventures and partnerships may be subject to rights of first refusal or first offer and certain of the joint venture and partnership agreements may provide for buy-sell or similar arrangements. Such rights may be triggered at a time when we may not desire to sell but may be forced to do so because we do not have the cash to purchase the other party's interests. Such rights may also inhibit our ability to sell an interest in a property or a joint venture/partnership within the time frame or otherwise on the basis we desire.

Our investment in properties through joint venture and partnership agreements is subject to the investment guidelines set out in our Declaration of Trust.

### **Development risk**

Due to our involvement in development activities, we are subject to related risks that include,

- i* the potential insolvency of a developer;
- ii* the developer's failure to use advanced funds in payment of construction costs;
- iii* construction or unanticipated delays;
- iv* incurring construction costs before ensuring rental revenues will be earned from the project;
- v* cost over-runs on the project; and
- vi* the failure of tenants to occupy and pay rent in accordance with lease arrangements.

Such risks are minimized by generally not commencing construction until satisfactory levels of pre-leasing/sales are achieved. Our risk exposure is further mitigated by our Declaration of Trust, which limits the amount we are able to commit to development activity at any one time to no more than 10% of unitholders' equity adjusted for accumulated depreciation and amortization.

### **Taxation risk**

On December 21, 2006, the Canadian federal Department of Finance (“Finance”) released draft legislation to amend the Canadian *Income Tax Act* to implement the new tax regime for income trusts, royalty trusts and other “specified investment flow-throughs” or “SIFTs”. The changes were first announced in a release from Finance on October 31, 2006. The draft legislation will disallow the deductibility of certain distributions made by publicly traded income trusts and partnerships. Certain real estate investment trusts (“REITs”) are excluded from the SIFT definition and therefore would not be subject to the draft legislation (the “REIT Exception”). Based on the draft legislation it would appear that Dundee REIT, as currently structured, would not qualify for the REIT Exception. The proposals do not fully accommodate the current business structure used by many Canadian REITs and contain a number of technical tests that many Canadian REITs may find difficult to satisfy. Finance’s stated intention is to exempt certain REITs from taxation as SIFTs; therefore, it is possible that changes to these technical tests will be made prior to their enactment in order to accommodate some of the existing REITs, including Dundee REIT. There can be no assurance that the draft legislation will be enacted in the form proposed nor of its impact on Dundee REIT, or as to whether Dundee REIT will have the ability to restructure or reorganize its assets and operations in a way that would not materially and adversely affect the amount of income available to distribute to unitholders and the net after-tax cash position of unitholders.

The October 31 release stated that, while there is no intention to prevent existing trusts from normal growth prior to 2011, any undue expansion of an existing trust could cause the undue expansion rule to apply. On December 15, 2006, Finance provided further guidance as to what is meant by “normal growth” in the context of the undue expansion rule. Finance stated that it would not recommend any changes to when an entity would be considered a SIFT as long as its equity capital growth, as a result of equity issuances, does not exceed an objective “safe harbour”. We believe that offerings made by us since October 31, 2006, will fall within the safe harbour, including the offering announced on February 12, 2007. The undue expansion rule would only be relevant to Dundee REIT if it did not meet the REIT Exception. As the legislation is still in draft form, there can be no assurance that any additions to the capital or assets of Dundee REIT will not, alone or in combination with each other, constitute an undue expansion.

## **Section V – Critical accounting policies**

Management of Dundee REIT believes the policies outlined below are those most subject to estimation and management’s judgment.

### **Impairment of assets**

Under Canadian GAAP, management is required to write down to fair value any long-lived asset that is determined to have been permanently impaired. Dundee REIT’s long-lived assets consist of rental properties and deferred costs relating to those properties. The fair value of rental properties and their associated deferred costs is dependent upon anticipated future cash flows from operations over the anticipated holding period.

The review of anticipated cash flows involves subjective assumptions of estimated occupancy, rental rates and a residual value. In addition to reviewing anticipated cash flows, management assesses changes in business climates and other factors that may affect the ultimate value of the property. These assumptions are subjective and may not ultimately be achieved.

In the event these factors result in a carrying value that exceeds the sum of the undiscounted cash flows expected to result from the direct use and eventual disposition of the property, an impairment loss would be recognized.

On December 21, 2005, the Trust entered into a commitment to sell a 50% interest in a retail rental property located in the United States, which closed in 2006. The carrying amount of the 50% interest exceeds the expected proceeds from the sale, the difference of which was recognized as an impairment loss by reducing the carrying amount of the rental property.



### **Purchase price allocations**

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

### **Intangible assets and liabilities**

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

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

### **Depreciation**

The Trust uses the straight-line method of depreciation for rental properties, initial leasing costs and major expansions and renovations. The estimated useful life of the properties continues to be between 30 and 40 years. A significant portion of the acquisition cost of each property is allocated to building. The allocation of the acquisition cost to building and the determination of the useful life are based upon management's estimates. In the event the allocation to building is inappropriate or the estimated useful life of buildings proves incorrect, the computation of depreciation will not be appropriately reflected over future periods.

### **Deferred costs**

During the year, as a result of implementing the provisions of Emerging Issues Committee Abstract No. 156, "Accounting by a Vendor for Consideration Given to a Customer" ("EIC-156"), we have reclassified tenant improvements, which were previously included in deferred leasing costs, and presented tenant improvements as an investing activity on the statement of cash flows. We have also reclassified comparative figures to conform to the current period's presentation. The adoption of EIC-156 had the effect during the year ended December 31, 2006, of reducing deferred leasing costs incurred, increasing cash generated from operating activities and increasing cash utilized in investing activities by \$7.7 million (December 31, 2005 – \$9.0 million).

### **Land**

During 2006, we acquired development land, which we account for as follows:

- Land under development includes all related development costs, interest on property-specific and general debt, property taxes and applicable general and administrative expenses incurred during construction, less miscellaneous revenue earned during the construction period.
- Land held for development includes acquisition costs, pre-development costs, interest on specific debt and property taxes, less miscellaneous revenue earned. Interest on general debt and general and administrative expenses are not capitalized to land held for development.
- Land held for sale includes acquisition costs, pre-development costs, interest on specific debt and property taxes, less miscellaneous revenue earned. Interest on general debt and general and administrative expenses are not capitalized to land held for sale.

## **Future changes in accounting policies**

### **Financial instruments**

CICA Handbook Section 3855, “Financial Instruments – Recognition and Measurements”, prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet, and at what amount, sometimes using fair value, other times using cost-based measures. The Trust will be impacted as follows:

- i* Deferred financing costs related to debt will be netted against the related debt with interest recognized at the new effective interest rate;
- ii* Guarantees provided by the Trust will be recorded as a liability estimated to be the premium that could be charged for providing the guarantee; and
- iii* any features embedded in debt or lease contracts that act as a derivative would be valued at market.

Dundee REIT has completed a review of its significant contracts and has determined there are no material embedded derivatives within the contracts reviewed. Any adjustments to the Trust’s financial statements as a result of adopting Section 3855 will be recognized by restating the balance of opening retained earnings. Comparative periods are not required to be restated.

In conjunction with Section 3855, the Trust will also adopt CICA Section 1530, “Comprehensive Income”, which will require the Trust to disclose Other Comprehensive Income (“OCI”) in its financial statements. The Trust has determined that accumulated foreign currency gains and losses related to its net investment in Greenbriar Mall will be disclosed as OCI. Previously these amounts were disclosed as a component of unitholders’ equity. Any change as a result of a reduction in the net investment will be disclosed as comprehensive income. The comparative financial statements will be restated by reclassifying the cumulative foreign currency translation adjustment to OCI. These standards are applicable to the Trust commencing January 1, 2007.

Additional information relating to Dundee REIT, including the latest annual information form of Dundee REIT, is available on SEDAR at [www.sedar.com](http://www.sedar.com)

## Management's responsibility for financial statements

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

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

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

**MICHAEL J. COOPER** (signed)  
Vice Chairman and Chief Executive Officer

**MARIO BARRAFATO** (signed)  
Senior Vice President and Chief Financial Officer

Toronto, Ontario, February 22, 2007

## Auditors' report

To the unitholders of Dundee Real Estate Investment Trust

We have audited the consolidated balance sheets of Dundee Real Estate Investment Trust as at December 31, 2006 and 2005 and the consolidated statements of net income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of Dundee Real Estate Investment Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Dundee Real Estate Investment Trust as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**CHARTERED ACCOUNTANTS** (signed)

Toronto, Ontario, February 22, 2007

## Consolidated balance sheets

(In thousands of dollars) December 31	Note	2006	2005
<b>Assets</b>			
Rental properties	4	\$ 1,816,811	\$ 1,328,395
Deferred costs	5	73,455	65,285
Land	6	41,395	–
Amounts receivable	7	18,606	13,378
Prepaid expenses and other assets	8	20,240	27,175
Cash and cash equivalents		70,997	16,516
Intangible assets	9	86,416	56,964
		<b>\$ 2,127,920</b>	<b>\$ 1,507,713</b>
<b>Liabilities</b>			
Debt	10	\$ 1,153,794	\$ 943,621
Amounts payable and accrued liabilities	11	40,701	32,260
Distributions payable	12	8,013	5,356
Future income tax liability	16	3,950	1,577
Intangible liabilities	9	33,351	6,181
		<b>1,239,809</b>	<b>988,995</b>
<b>Non-controlling interest</b>	13	–	146,976
<b>Unitholders' equity</b>	13	<b>888,111</b>	<b>371,742</b>
		<b>\$ 2,127,920</b>	<b>\$ 1,507,713</b>

See accompanying notes to the consolidated financial statements

On behalf of the Board of Trustees of Dundee Real Estate Investment Trust:

**NED GOODMAN** (signed)  
Trustee

**MICHAEL J. COOPER** (signed)  
Trustee

## Consolidated statements of net income

(In thousands of dollars, except per unit amounts) For the years ended December 31	Note	2006	2005
<b>Revenues</b>			
Rental properties revenue		\$ 287,794	\$ 220,615
Interest and fee income		3,646	2,144
		<b>291,440</b>	<b>222,759</b>
<b>Expenses</b>			
Rental properties operating expenses		122,150	99,176
Interest	15	66,052	53,960
Depreciation of rental properties		39,850	29,459
Amortization of deferred leasing costs, tenant improvements and intangibles		30,614	19,508
General and administrative		6,812	5,408
		<b>265,478</b>	<b>207,511</b>
<b>Income before the undernoted items</b>		<b>25,962</b>	<b>15,248</b>
Internalization of property manager	25	(13,678)	-
Loss on disposal of rental property	26	(220)	-
Provision for impairment in value of rental property	26	-	(11,533)
Dilution gain	13	-	1,890
<b>Income before income and large corporations taxes</b>		<b>12,064</b>	<b>5,605</b>
<b>Income taxes</b>			
Current income and large corporations taxes		62	181
Future income taxes	16	2,314	(3,653)
		<b>2,376</b>	<b>(3,472)</b>
<b>Income before non-controlling interest and discontinued operations</b>		<b>9,688</b>	<b>9,077</b>
<b>Income attributable to non-controlling interest</b>		<b>(1,840)</b>	<b>(2,511)</b>
<b>Income before discontinued operations</b>		<b>7,848</b>	<b>6,566</b>
<b>Discontinued operations</b>	22	<b>3,370</b>	<b>(2,257)</b>
<b>Net income</b>		<b>\$ 11,218</b>	<b>\$ 4,309</b>
<b>Basic income (loss) per unit</b>			
Continuing operations	17	\$ 0.25	\$ 0.38
Discontinued operations		0.10	(0.13)
<b>Net income</b>		<b>\$ 0.35</b>	<b>\$ 0.25</b>
<b>Diluted income (loss) per unit</b>			
Continuing operations	17	\$ 0.25	\$ 0.29
Discontinued operations		0.10	(0.13)
<b>Net income</b>		<b>\$ 0.35</b>	<b>\$ 0.16</b>

See accompanying notes to the consolidated financial statements

## Consolidated statements of unitholders' equity

(In thousands of dollars, except number of units)	Note	Number of units	Cumulative capital	Cumulative net income	Cumulative distributions	Cumulative foreign currency translation adjustment	Total
<b>Unitholders' equity, January 1, 2006</b>		<b>20,449,209</b>	<b>\$ 446,678</b>	<b>\$ 15,844</b>	<b>\$ (85,680)</b>	<b>\$ (5,100)</b>	<b>\$ 371,742</b>
Net income		–	–	11,218	–	–	11,218
Distributions paid	12	–	–	–	(63,089)	–	(63,089)
Distributions payable	12	–	–	–	(8,013)	–	(8,013)
Public offering of REIT Units	13	10,190,000	319,981	–	–	–	319,981
Distribution Reinvestment Plan	13	830,516	24,717	–	–	–	24,717
Unit Purchase Plan	13	13,087	359	–	–	–	359
Conversion of 6.5% Debentures	13	1,935,640	48,391	–	–	–	48,391
Conversion of 5.7% Debentures	13	1,135,617	34,069	–	–	–	34,069
Issue of units on internalization of property manager	25	505,326	13,917	–	–	–	13,917
Deferred Unit Incentive Plan	13	22,888	1,170	–	–	–	1,170
Issue costs		–	(18,041)	–	–	–	(18,041)
Release of cumulative foreign currency translation adjustment on disposition of revenue property	26	–	–	–	–	3,686	3,686
Change in foreign currency translation adjustment		–	–	–	–	(1,329)	(1,329)
Reclassification of LP Class B Units, Series 1	13	8,337,365	195,884	6,326	(50,504)	(2,373)	149,333
<b>Unitholders' equity, December 31, 2006</b>		<b>43,419,648</b>	<b>\$ 1,067,125</b>	<b>\$ 33,388</b>	<b>\$ (207,286)</b>	<b>\$ (5,116)</b>	<b>\$ 888,111</b>

(In thousands of dollars, except number of units)	Note	Number of units	Cumulative capital	Cumulative net income	Cumulative distributions	Cumulative foreign currency translation adjustment	Total
<b>Unitholders' equity, January 1, 2005</b>		<b>16,819,963</b>	<b>\$ 357,585</b>	<b>\$ 11,535</b>	<b>\$ (47,449)</b>	<b>\$ (3,126)</b>	<b>\$ 318,545</b>
Net income		–	–	4,309	–	–	4,309
Distributions paid		–	–	–	(34,462)	–	(34,462)
Distributions payable		–	–	–	(3,769)	–	(3,769)
Public offering of REIT Units	13	2,990,000	74,750	–	–	–	74,750
Distribution Reinvestment Plan	13	532,817	13,785	–	–	–	13,785
Unit Purchase Plan	13	8,725	232	–	–	–	232
Conversion of 6.5% Debentures	13	81,040	2,026	–	–	–	2,026
Redemption of REIT Units		(100)	(2)	–	–	–	(2)
Deferred Unit Incentive Plan	13	16,764	830	–	–	–	830
Issue costs		–	(3,728)	–	–	–	(3,728)
Equity component of 5.7% Debentures	10	–	1,200	–	–	–	1,200
Change in foreign currency translation adjustment		–	–	–	–	(1,974)	(1,974)
<b>Unitholders' equity, December 31, 2005</b>		<b>20,449,209</b>	<b>\$ 446,678</b>	<b>\$ 15,844</b>	<b>\$ (85,680)</b>	<b>\$ (5,100)</b>	<b>\$ 371,742</b>

See accompanying notes to the consolidated financial statements

## Consolidated statements of cash flows

(In thousands of dollars) For the years ended December 31	Note	2006	2005
<b>Generated from (utilized in) operating activities</b>			(restated, see Note 2)
Net income		\$ 11,218	\$ 4,309
Non-cash items:			
Depreciation of rental properties		39,908	29,743
Amortization of deferred leasing costs, tenant improvements and intangibles		30,643	19,985
Amortization of deferred financing costs		1,922	1,551
Amortization of marked-to-market adjustment on acquired debt		(1,882)	(2,012)
Provision for impairment in value of rental properties		-	11,533
Internalization of property manager		13,678	-
Loss (gain) on disposal of rental properties		(3,009)	3,620
Deferred unit compensation expense		1,170	830
Future income taxes		2,314	(3,653)
Amortization of market rent adjustments on acquired leases		(4,124)	(331)
Straight-line rent adjustment		(3,164)	(3,688)
Dilution gain		-	(1,890)
Non-controlling interest		1,876	1,523
		90,550	61,520
Deferred leasing costs incurred		(6,097)	(4,440)
Change in non-cash working capital	24	3,409	5,912
		87,862	62,992
<b>Generated from (utilized in) investing activities</b>			
Investment in rental properties		(9,173)	(7,833)
Investment in tenant improvements	2	(7,667)	(9,033)
Investment in land development		(2,103)	-
Acquisition of rental properties and land	3	(484,667)	(275,024)
Acquisition deposit on rental properties		(3,600)	(880)
Investment in mezzanine loan		(3,680)	(750)
Receipt of mezzanine loan		13,167	-
Vendor take-back mortgage repayment		3,450	-
Net proceeds from disposal of rental properties		24,922	8,118
Change in restricted cash, net		(1,244)	8,677
		(470,595)	(276,725)
<b>Generated from (utilized in) financing activities</b>			
Mortgages placed, net of costs		294,985	155,621
Mortgage principal repayments		(25,380)	(17,957)
Mortgage lump sum repayments		(79,486)	(46,076)
Term debt principal repayments		(364)	(501)
Term debt lump sum repayments		(14,957)	(7,492)
Term debt placed, net of costs		6,139	-
Convertible debentures issued, net of costs		-	95,443
Demand non-revolving credit facility		-	(6,107)
Distributions paid on REIT Units	12	(50,074)	(31,700)
Units issued for cash, net of costs		306,351	71,687
		437,214	212,918
<b>Increase (decrease) in cash and cash equivalents</b>		<b>54,481</b>	<b>(815)</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>16,516</b>	<b>17,331</b>
<b>Cash and cash equivalents, end of year</b>		<b>\$ 70,997</b>	<b>\$ 16,516</b>

See accompanying notes to the consolidated financial statements



## Notes to the consolidated financial statements

(All dollar amounts in thousands, except unit or per unit amounts)

### 1.

#### Organization

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

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

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

On May 12, 2006, the Trust acquired the remaining 50% interest in DMLP as discussed in Note 25.

At December 31, 2006, Dundee Corporation, the majority shareholder of DRC, indirectly held 127,955 REIT Units, Series A (“REIT Units”) and 8,565,095 LP Class B Units, Series 1 (“LP B Units”), which includes 55,326 LP B Units it is entitled to receive but that are held in trust (2005 – 317,403, 8,337,365 and nil units, respectively).

### 2.

#### Summary of significant accounting policies

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

#### Revenue recognition

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

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

#### Rental properties

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

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

### Land

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

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

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

### Purchase price allocations

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

### Intangible assets and liabilities

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

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

### Impairment of long-lived assets

The Trust uses a two-step process for determining when an impairment of rental properties, land under development, land held for development and intangible assets should be recognized in the consolidated financial statements. If events or circumstances indicate that the carrying value of a property may be impaired, a recoverability analysis is performed based on estimated undiscounted future cash flows to be generated from property operations and the property's projected disposition. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to its estimated fair value and an impairment loss is recognized. Land held for sale is carried at the lower of capitalized cost and net realizable value.

### Deferred costs

Deferred costs may include:

- Deferred leasing costs, which include leasing fees and costs, except for initial leasing costs that are included in rental properties, and deferred leasing costs acquired. Deferred leasing costs are amortized on a straight-line basis over the term of the applicable lease to amortization expense;
- Tenant inducements, which are payments for which the tenant has no obligation to make leasehold improvements to the leased space and which are amortized against rental properties revenue on a straight-line basis over the term of the applicable lease;
- Tenant improvements, which include costs incurred to make leasehold improvements to tenants' space and which are amortized on a straight-line basis over the term of the applicable lease to amortization expense. During the year, as a result of implementing the provisions of Emerging Issues Committee Abstract No. 156, "Accounting by a Vendor for Consideration Given to a Customer" ("EIC-156"), the Trust has reclassified tenant improvements, which were previously included in deferred leasing costs, and presented tenant improvements as an investing activity on the statement of cash flows. The Trust has reclassified comparative figures to conform to the current period's presentation. The adoption of EIC-156 had the effect during the year ended December 31, 2006, of reducing deferred leasing costs incurred, increasing cash generated from operating activities and increasing cash utilized in investing activities by \$7,667 (December 31, 2005 – \$9,033);
- Deferred recoverable operating expenses, which are amortized to operating expenses over the period during which they are recoverable from tenants;
- Deferred financing costs, which include debt issue fees and expenses that are amortized to interest expense on a straight-line basis over the term of the debt; and
- Direct acquisition fees and costs, which exclude general and administrative costs, and which are deferred until the acquisition is completed and the costs are capitalized to the acquisition, or the acquisition is abandoned and the costs are written off.

### Impairment of loans receivable

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

### Discontinued operations

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

### Convertible debentures

Upon issuance, convertible debentures are separated into debt and equity components. These components are measured based on their respective estimated fair values at the date of issuance. The fair value of the debt component is estimated based on the present value of future interest and principal payments due under the terms of the debenture using a discount rate for similar debt instruments without a conversion feature. The value assigned to the equity component is the estimated fair value ascribed to the holders' option to convert the debentures into REIT Units. The difference between the fair value of the debt and the face value is recognized as interest expense on a straight-line basis over the term to maturity of the debentures with corresponding accretion to the principal of the debt.

### Foreign currency translation

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

### Income taxes

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

### Unit-based compensation plan

Dundee REIT has a Deferred Unit Incentive Plan, as described in Note 13, that provides for the grant of Deferred Trust Units and Income Deferred Trust Units to trustees, officers and employees, and affiliates and their service providers. The Trust recognizes compensation expense on a straight-line basis over the period that the deferred units vest, based on the market price of REIT Units on the date of grant. Deferred Trust Units that have vested but for which the corresponding REIT Units have not been issued, and where the ultimate issuance of such REIT Units is simply a matter of the passage of time, are considered to be outstanding units from the date of vesting for basic income per unit calculations.

### Cash and cash equivalents

For the purposes of the statements of cash flows, the Trust considers all short-term investments with an original maturity of three months or less to be cash equivalents, and excludes cash subject to restrictions that prevent its use for current purposes. As at December 31, 2006, cash and cash equivalents includes the Trust's proportionate share of cash balances of joint ventures of \$2,688 (December 31, 2005 – \$4,509). Excluded from cash and cash equivalents are amounts held for repayment of tenant security deposits as required by various lending agreements.

### Non-controlling interest

On January 19, 2005, the Emerging Issues Committee of the CICA issued EIC-151, "Exchangeable Securities Issued by Subsidiaries of Income Trusts", which requires income trusts with exchangeable securities issued by their subsidiaries to evaluate whether the exchangeable securities should be presented as unitholders' equity or non-controlling interest on the consolidated balance sheet. In order to be presented as unitholders' equity, the exchangeable securities must have distributions that are economically equivalent to distributions on units issued directly by the income trust and must also ultimately be exchanged for units of the income trust. The distributions on the LP B Units are economically equivalent to distributions on the REIT Units. On May 12, 2006, the terms of the LP B Units were amended to restrict the transfer of such units except to a subsidiary of the holder. As a result, if an existing holder of LP B Units wants to transfer the LP B Units to a third party, they must first be converted to REIT Units, Series B. This amendment permits the Trust to classify the outstanding LP B Units as equity for financial statement purposes in accordance with Canadian GAAP. Prior to the effective date of the amendment on May 1, 2006, because the LP B Units contained no conditions requiring either the conversion to REIT Units or restricting their transferability to third parties, the LP B Units were presented as non-controlling interest in the consolidated financial statements. As a result, the Trust had accounted for the investment of the net proceeds from equity offerings in DPLP using the purchase method. In addition, the issuance of LP B Units under the Distribution Reinvestment Plan had resulted in a dilution of the Trust's ownership of DPLP.

### Variable Interest Entities

On January 1, 2005, the Trust adopted the requirements of CICA Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"), which provides guidance for applying the principles in Section 1590, "Subsidiaries", to those entities defined as Variable Interest Entities ("VIEs"). This standard considers a VIE to be an entity in which either the equity at risk is not sufficient to permit it to finance its activities without additional subordinated financial support from other parties, or equity investors lack either voting control, or an obligation to absorb expected losses or the right to receive expected residual returns. AcG-15 requires consolidation of VIEs by the Primary Beneficiary. The Primary Beneficiary is defined as the party who has exposure to the majority of a VIE's expected losses and/or expected residual returns. The adoption of AcG-15 did not have an impact on the Trust.

### Comparative figures

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

## 3.

**Property acquisitions**

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

Year ended December 31, 2006	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price	Fair value of mortgage assumed	Date acquired
Park 19, Edmonton	industrial	100	48,000	100	\$ 2,726	\$ –	January 10, 2006
70 Disco Road, Toronto	industrial	100	99,000	100	7,577	3,117	January 12, 2006
SEC Portfolio, Québec	office/industrial	100	265,000	99	21,306	6,199	January 27, 2006
2440 Scanlan Street, London	industrial	100	85,000	100	6,266	3,477	April 20, 2006
Sherwood Place, Regina	office	100	182,000	99	33,206	14,442	April 21, 2006
1400 boul. de la Rive Sud, Québec City	office	100	77,000	100	12,062	–	May 1, 2006
4255 14th Avenue, Markham	industrial	100	57,000	100	5,914	–	May 1, 2006
Princeton Portfolio, Western Canada	office/industrial/land	100	530,000	94	96,818	43,835	May 17, 2006
10089 Jasper Avenue, Edmonton	land	100	86,000	–	4,160	–	May 29, 2006
Barker Business Park (Phase II), Toronto	land	60	–	–	8,994	–	June 7, 2006
Calgary Office Portfolio, Calgary	office	100	822,000	98	218,257	23,339	June 15, 2006
Tullamore Business Park, Caledon	land	60	–	–	3,224	–	July 4, 2006
Victoria Tower, Regina	office	100	144,000	100	17,815	8,621	July 21, 2006
100 Legacy Road, Ottawa	industrial	100	103,000	100	8,906	–	August 1, 2006
10079 Jasper Avenue, Edmonton	land	10	–	–	310	–	August 4, 2006
Aviva Corporate Centre, Toronto	office/industrial	100	438,000	100	43,961	–	September 13, 2006
Station Tower Lands, Surrey	land	100	–	–	3,728	–	September 21, 2006
2121 Argentia Road, Mississauga	office	100	61,000	96	11,270	–	November 16, 2006
Airport Corporate Centre West, Mississauga	office	100	357,000	86	66,253	–	November 28, 2006
2891 Sunridge Way NE, Calgary	office	100	88,000	100	25,736	–	December 20, 2006
<b>Total</b>			<b>3,442,000</b>	<b>98</b>	<b>\$ 598,489</b>	<b>\$ 103,030</b>	

Year ended December 31, 2005	Property type	Interest acquired (%)	Acquired GLA (sq. ft.)	Occupancy on acquisition (%)	Purchase price	Fair value of mortgage assumed	Date acquired
2599 Speakman Drive, Mississauga	office	100	114,000	100	\$ 9,617	\$ 4,655	January 13, 2005
1219 Corporate Drive, Burlington	industrial	100	103,000	100	6,640	–	January 31, 2005
204 King Street East, Toronto	office	100	135,000	100	20,475	–	February 25, 2005
2580 avenue Dollard, Montréal	industrial	100	90,000	100	4,700	2,600	March 2, 2005
Epcor Centre, Edmonton	office	10 <sup>1</sup>	19,000	100	1,334	–	March 4, 2005
2465 St. Laurent Blvd., Ottawa	office	100	62,000	100	8,612	3,222	March 8, 2005
56 Wellesley Street West, Toronto	office	50 <sup>1</sup>	108,000	100	14,150	4,364	April 1, 2005
120 Valleywood Drive, Markham	industrial	50 <sup>1</sup>	30,000	100	1,670	828	April 1, 2005
2280 boul. Alfred-Nobel, Montréal	under development	100	86,000	–	5,472	–	April 8, 2005
1000 boul. Saint-Jean, Montréal	office	100	112,000	98	16,133	6,762	April 14, 2005
22000 Trans-Canada Hwy. and 115 boul. Hymus, Montréal	industrial	100	371,000	100	24,548	–	April 18, 2005
1415-1511 rue Berlier, Laval	industrial	100	64,000	100	4,430	–	May 5, 2005
375-425 Britannia Road, Mississauga	industrial	100	121,000	99	10,485	3,269	May 30, 2005
Joffre Place, Calgary	office	100	111,000	96	18,310	9,680	June 2, 2005
975 boul. Saint-Joseph, Gatineau	office	100	194,000	99	25,945	14,483	June 17, 2005
400-480 boul. Armand Frappier, Laval	office	100	198,000	94	35,526	–	June 20, 2005
2285 Speakman Drive, Mississauga	office	100	131,000	100	13,161	–	June 27, 2005
199 Traders Blvd. East, Mississauga	industrial	100	77,000	100	7,246	–	August 9, 2005
Scotia Centre, St. John's	office	100	190,000	100	33,370	–	August 18, 2005
9975-9995 boul. de Catania, Brossard	industrial	100	124,000	95	15,984	7,616	August 30, 2005
1523-1531 rue Berlier, Laval	industrial	100	6,000	100	540	–	August 30, 2005
3913-3917 81st Avenue, Leduc	under development	100	–	–	718	–	September 23, 2005
ACC Centre, Calgary	industrial	100	65,000	95	6,884	3,248	November 8, 2005
35 Fitzgerald Road, Ottawa	office	100	63,000	100	11,927	7,348	November 9, 2005
2695 avenue Dollard, Montréal	industrial	100	71,000	100	4,601	–	November 17, 2005
Palladium Phase III Land, Ottawa	held for development	100	–	–	833	–	December 16, 2005
3820 Commerce Road, London and 147 Massey Road, Guelph	industrial	100	81,000	100	8,134	4,415	December 20, 2005
3915 Commerce Road, London	industrial	100	83,000	100	6,586	1,988	December 23, 2005
Entrust Tower, Ottawa	office	100	146,000	100	32,590	–	December 23, 2005
<b>Total</b>			<b>2,955,000</b>	<b>99</b>	<b>\$ 350,621</b>	<b>\$ 74,478</b>	

<sup>1</sup> 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 years ended December 31	2006	2005
<b>Rental properties</b>		
Land	\$ 70,585	\$ 38,673
Buildings	458,119	261,449
Fixed assets and equipment	403	-
Properties under development	301	6,189
	<b>529,408</b>	306,311
<b>Land</b>		
Under development	29,925	-
Held for development	1,015	-
Held for sale	8,352	-
Third-party management contracts	195	-
Tenant improvements acquired	14,567	12,056
Tenant loan receivables	-	177
<b>Intangible assets</b>		
Value of in-place leases	25,149	16,662
Lease origination costs	5,512	4,214
Value of above market rent leases	2,020	1,788
Value of tenant relationships	14,574	13,467
	<b>630,717</b>	354,675
<b>Intangible liabilities</b>		
Value of below market rent leases	(32,228)	(4,054)
<b>Total purchase price</b>	<b>\$ 598,489</b>	<b>\$ 350,621</b>
The consideration paid consists of:		
<b>Cash</b>		
Paid during the period	\$ 484,667	\$ 275,024
Deposit	710	450
	<b>485,377</b>	275,474
Assumed mortgages at fair value	103,030	74,478
Vendor loan	6,750	-
Assumed accounts payable and accrued liabilities	3,332	669
<b>Total consideration</b>	<b>\$ 598,489</b>	<b>\$ 350,621</b>

#### 4. Rental properties

December 31	2006			2005		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 300,553	\$ -	\$ 300,553	\$ 233,502	\$ -	\$ 233,502
Buildings and improvements	1,627,185	(119,580)	1,507,605	1,170,111	(84,412)	1,085,699
Fixed assets and equipment	2,040	(773)	1,267	2,661	(1,927)	734
Rental properties under development	7,386	-	7,386	8,460	-	8,460
<b>Total</b>	<b>\$ 1,937,164</b>	<b>\$ (120,353)</b>	<b>\$ 1,816,811</b>	<b>\$ 1,414,734</b>	<b>\$ (86,339)</b>	<b>\$ 1,328,395</b>

## 5. Deferred costs

December 31	2006			2005		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Deferred leasing costs	\$ 20,903	\$ (7,490)	\$ 13,413	\$ 16,347	\$ (5,457)	\$ 10,890
Tenant improvements	72,690	(26,733)	45,957	54,786	(18,592)	36,194
Deferred recoverable costs	13,816	(7,409)	6,407	13,462	(5,970)	7,492
Deferred financing costs	11,705	(4,739)	6,966	13,819	(3,881)	9,938
Other deferred costs	1,847	(1,135)	712	1,617	(846)	771
<b>Total</b>	<b>\$ 120,961</b>	<b>\$ (47,506)</b>	<b>\$ 73,455</b>	<b>\$ 100,031</b>	<b>\$ (34,746)</b>	<b>\$ 65,285</b>

Amortization of deferred recoverable costs included in operating expenses for the twelve months ended December 31, 2006 is \$1,872 (December 31, 2005 – \$1,751).

## 6. Land

December 31	2006		2005
Land under development	\$ 31,991	\$	–
Land held for development	1,021		–
Land held for sale	8,383		–
<b>Total</b>	<b>\$ 41,395</b>	<b>\$</b>	<b>–</b>

## 7. Amounts receivable

Amounts receivable include straight-line rents receivable of \$12,874 (December 31, 2005 – \$9,944) and is net of credit adjustments of \$6,659 (December 31, 2005 – \$3,718).

## 8. Prepaid expenses and other assets

December 31	2006		2005
Prepaid expenses	\$ 6,729	\$	5,576
Mezzanine loans	3,893		12,513
Vendor loan	–		3,450
Deposits	4,020		1,282
Restricted cash	5,598		4,354
<b>Total</b>	<b>\$ 20,240</b>	<b>\$</b>	<b>27,175</b>

The Trust had provided an \$11,226 mezzanine loan to the Airport Corporate Centre West (“ACCW”) joint venture to finance certain development projects. The loan and all accrued interest was repaid in full in November 2006.

On May 26, 2006, the Trust entered into a joint venture agreement with a development partner to jointly own and develop prestige industrial and office properties in its target markets. The Trust has a 60% ownership interest in the joint venture. As part of the agreement, the Trust is required to provide mezzanine financing equal to 90% of any funding requirement, up to a maximum of \$45,000, not otherwise provided by third-party lenders. The Trust is also required to guarantee, when necessary, 90% of financing obtained from third parties. As at December 31, 2006, the Trust had advanced \$9,201 of the funding requirement for the purchase of approximately 60 acres of serviced land in suburban Toronto. The amount invested is accounted for and comprises a mezzanine loan of \$3,893 and land under development of \$13,384, net of term debt of \$7,534 and accrued liabilities of \$542. The Trust has also provided an \$8,289 guarantee on the financing provided by a third-party lender of which \$5,526 is included in term debt.



The Trust has the right to purchase the completed properties, other than any build-to-suit properties that will be sold to third parties. The mezzanine loan to the joint venture bears interest at a rate of 11%, for which no payment has been received to date. As at December 31, 2006, the mezzanine loan comprises principal of \$3,681 and interest of \$212, which is receivable by June 7, 2011, unless extended under the terms of the mezzanine loan agreement. The estimated fair value of the loan is \$4,346.

A vendor loan in the principal amount of \$3,450 formed a portion of the proceeds from the sale of Northgate Mall in December 2004. The loan was repaid in full on December 14, 2006.

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

## 9. Intangible assets and liabilities

December 31	2006						2005
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	
<b>Intangible assets</b>							
Value of above market rent leases	\$ 7,134	\$ (2,190)	\$ 4,944	\$ 5,113	\$ (1,256)	\$ 3,857	
Value of in-place leases	53,558	(16,343)	37,215	28,614	(6,413)	22,201	
Lease origination costs	13,974	(3,768)	10,206	8,465	(1,683)	6,782	
Value of tenant relationships	42,168	(8,117)	34,051	27,418	(3,294)	24,124	
<b>Total</b>	<b>\$ 116,834</b>	<b>\$ (30,418)</b>	<b>\$ 86,416</b>	<b>\$ 69,610</b>	<b>\$ (12,646)</b>	<b>\$ 56,964</b>	
<b>Intangible liabilities</b>							
Value of below market rent leases	\$ 40,049	\$ (6,698)	\$ 33,351	\$ 7,843	\$ (1,662)	\$ 6,181	

## 10. Debt

December 31	2006		2005
Mortgages	\$ 1,056,311	\$ 756,920	
Convertible debentures	89,719	171,368	
Demand revolving credit facility	-	-	
Term debt	7,764	15,333	
<b>Total</b>	<b>\$ 1,153,794</b>	<b>\$ 943,621</b>	

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

On May 26, 2006, the Trust entered into a joint venture agreement to jointly own and develop industrial and office properties. The Trust's share of term debt of the joint venture as at December 31, 2006, is \$7,534, of which \$5,526 relates to a demand loan bearing interest at the prime rate plus 1% and is due no later than May 30, 2009. The balance of \$2,008 is made up of the Trust's share of mezzanine financing provided to the joint venture by the co-owner and a vendor loan.

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 per one thousand dollars of face value, representing a conversion price of \$30.00 per unit. The 5.7% Debentures may not be redeemed prior to March 31, 2009. On or after March 31, 2009, but prior to March 31, 2011, the 5.7% Debentures may be redeemed by the Trust in whole or in part at a price equal to the principal amount plus accrued and unpaid interest, provided that the market price for the Trust's units is not less than \$37.50. On or after March 31, 2011, the 5.7% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. In accordance with Section 3860 of the CICA Handbook, the 5.7% Debentures were initially recorded on the consolidated balance sheet as debt of \$98,800 and equity of \$1,200. Issue costs of \$4,707 and the discount related to the offering are amortized to interest expense over ten years.

On June 21, 2004, the Trust issued \$75,000 principal amount convertible unsecured subordinated debentures (the "6.5% Debentures"). The 6.5% Debentures bear interest at 6.5% per annum, payable semi-annually on June 30 and December 31 each year, and mature on June 30, 2014. Each 6.5% Debenture is convertible at any time by the debenture holder into 40 REIT Units per one thousand dollars of face value, representing a conversion price of \$25.00 per unit. The 6.5% Debentures may not be redeemed prior to June 30, 2008. On or after June 30, 2008, but prior to June 30, 2010, the 6.5% Debentures may be redeemed by the Trust in whole or in part at a price equal to the principal amount plus accrued and unpaid interest, provided the market price for the Trust's units is not less than \$31.25. On or after June 30, 2010, the 6.5% Debentures may be redeemed by the Trust at a price equal to the principal amount plus accrued and unpaid interest. In accordance with Section 3860 of the CICA Handbook, the 6.5% Debentures were initially recorded on the consolidated balance sheet as debt of \$74,400 and equity of \$600. Issue costs of \$3,605 and the discount related to the offering are amortized to interest expense over ten years.

In 2006, conversions of the 5.7% Debentures resulted in the transfer of \$34,069 to equity (2005 – nil). The resulting carrying value at December 31, 2006, net of amortized marked-to-market adjustments, was \$65,281 (December 31, 2005 – \$98,890). Conversions of the 6.5% Debentures resulted in the transfer of \$48,391 to equity (2005 – \$2,026). The resulting carrying value at December 31, 2006, net of amortized marked-to-market adjustments, was \$24,438 (December 31, 2005 – \$72,478).

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 (6.00% as at December 31, 2006) plus 0.375% or bankers' acceptance rates. The facility expires on June 19, 2007, and is secured by a first ranking collateral mortgage on nine of the Trust's properties and a second ranking collateral mortgage on one property. As at December 31, 2006, the maximum amount available under this facility was \$80,000, of which \$733 was utilized in the form of letters of guarantee (December 31, 2005 – \$59). As at December 31, 2006, the amount still available under this facility was \$79,267.

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

December 31	Weighted average interest rates			Debt amount	
	2006	2005	Maturity dates	2006	2005
<b>Fixed rate</b>					
Mortgages	5.89%	6.17%	2007–2019	\$ 1,036,909	\$ 756,920
Convertible debentures	6.08%	6.19%	2014–2015	89,719	171,368
Term debt	7.17%	6.70%	2008–2011	2,238	271
<b>Total fixed rate debt</b>	<b>5.90%</b>	6.17%		<b>1,128,866</b>	928,559
<b>Variable rate</b>					
Mortgages	8.40%	–	2008	19,402	–
Term debt	7.00%	5.65%	2007	5,526	15,062
Demand revolving credit facility	–	–	–	–	–
<b>Total variable rate debt</b>	<b>8.09%</b>	5.65%		<b>24,928</b>	15,062
<b>Total debt</b>	<b>5.95%</b>	6.16%		<b>\$ 1,153,794</b>	\$ 943,621

The variable rate mortgage debt outstanding at December 31, 2006, bears interest generally at the rate of LIBOR plus 3.05% up to a maximum of 8.75%. At December 31, 2006, the LIBOR rate was 5.35%. The variable rate term debt outstanding at December 31, 2006, bears interest at prime plus 1%. At December 31, 2006, the prime rate was 6%.

The scheduled principal repayments and debt maturities are as follows:

For the years ending December 31	Mortgages	Term debt	Convertible debentures	Total
2007	\$ 52,676	\$ 1,511	\$ –	\$ 54,187
2008	140,463	113	–	140,576
2009	143,997	5,526	–	149,523
2010	62,448	–	–	62,448
2011	179,641	614	–	180,255
2012 and thereafter	477,086	–	89,719	566,805
	\$ 1,056,311	\$ 7,764	\$ 89,719	\$ 1,153,794

Included in mortgages are \$9,567 in marked-to-market adjustments (December 31, 2005 – \$8,488) reflecting the fair value of mortgages assumed as part of acquisitions. The 6.5% and 5.7% Debentures are net of a \$794 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.

The estimated fair value of debt is as follows:

December 31	<b>2006</b>	2005
Mortgages	<b>\$ 1,081,535</b>	\$ 788,995
Convertible debentures	<b>121,881</b>	170,771
Term debt	<b>7,733</b>	15,354
<b>Total</b>	<b>\$ 1,211,149</b>	\$ 975,120

## 11. Amounts payable and accrued liabilities

December 31	<b>2006</b>	2005
Trade payables	<b>\$ 1,664</b>	\$ 2,074
Accrued liabilities and other payables	<b>20,104</b>	15,787
Accrued interest	<b>6,072</b>	5,428
Deposits	<b>9,863</b>	6,646
Rent received in advance	<b>2,998</b>	2,325
<b>Total</b>	<b>\$ 40,701</b>	\$ 32,260

## 12. Distributions

The following table sets out distribution payments for the year ended December 31, 2006.

	REIT Units, Series A	LP Class B Units, Series 1	Total
Paid in cash	\$ 50,074	\$ –	\$ 50,074
Paid by way of reinvestment in REIT Units	5,093	19,013	24,106
Paid by way of reinvestment in LP B Units	–	612	612
Less: Payable at December 31, 2005	(3,769)	(1,587)	(5,356)
Plus: Payable at December 31, 2006	6,393	1,620	8,013
<b>Total</b>	<b>\$ 57,791</b>	<b>\$ 19,658</b>	<b>\$ 77,449</b>

The amount payable at December 31, 2006, was satisfied on January 15, 2006, by way of \$6,024 in cash and \$369 by way of 9,530 REIT Units, and \$1,620 by way of 41,837 LP B Units. Included in the total distributions is \$951 representing the 4% bonus distribution that forms part of the Distribution Reinvestment Plan. As of August 15, 2005, the holders of LP B Units elected to receive their distributions in the form of REIT Units. Holders of LP B Units issued on the internalization of the property manager elected to receive their distributions in the form of LP B Units.

### 13. Unitholders' equity

December 31	2006		2005 <sup>1</sup>	
	Number of units	Amount	Number of units	Amount
REIT Units, Series A	34,854,553	\$ 745,348	20,449,209	\$ 376,842
LP Class B Units, Series 1	8,565,095	147,879	8,337,365	149,056
Cumulative foreign currency translation adjustment	—	(5,116)	—	(7,180)
<b>Total</b>	<b>43,419,648</b>	<b>\$ 888,111</b>	<b>28,786,574</b>	<b>\$ 518,718</b>

<sup>1</sup> In 2005, the 149,056 LP B Units and \$2,080 of the cumulative foreign currency translation adjustment, for a total of \$146,976, were presented as non-controlling interest.

#### Dundee REIT Units

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

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

At Dundee REIT's annual and special meeting held on May 5, 2005, unitholders approved an amendment to the Declaration of Trust authorizing REIT Units, Series B to be convertible at any time at the option of the holder into REIT Units, Series A on a one-for-one basis. Previously, the Trust was obligated to list the REIT Units, Series B separately on the Toronto Stock Exchange. During the year, 296,851 LP B Units were exchanged indirectly by Dundee Corporation for 296,851 REIT Units, Series B, which were then exchanged for 296,851 REIT Units, Series A. The exchanges were measured at a pro rata carrying amount of the LP B Units.

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

Special Trust Units are issued in conjunction with LP B Units. The Special Trust Units are not transferable separately from the LP B Units to which they relate and will be automatically redeemed for a nominal amount and cancelled upon surrender or exchange of such LP B Units. Each Special Trust Unit entitles the holder to the number of votes at any meeting of unitholders that is equal to the number of REIT Units, Series B that may be obtained upon the surrender or exchange of the LP B Units to which they relate. At December 31, 2006, 8,565,095 Special Trust Units were issued and outstanding (December 31, 2005 – 8,337,365 issued and outstanding). At December 31, 2006, 92,000 Special Trust Units were held in trust pursuant to the internalization of DMLP (see Note 25), 55,326 of which are included in the outstanding Special Trust Units at December 31, 2006. DRC is currently entitled to receive the Special Trust Units held in trust on June 30, 2007. These Special Trust Units are recorded at a nominal value.

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

## DPLP units

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

The LP Class B Units, Series 1, together with the accompanying Special Trust Units, have economic and voting rights equivalent in all material respects to the REIT Units, Series A and REIT Units, Series B. Generally, each LP Class B Unit, Series 1 entitles the holder to a distribution equal to distributions declared on REIT Units, Series B or, if no such distribution is declared, on REIT Units, Series A. LP Class B Units, Series 1 may be surrendered or indirectly exchanged on a one-for-one basis at the option of the holder, generally at any time, subject to certain restrictions, for REIT Units, Series B. The LP Class B Units, Series 1 are not entitled to vote at any meeting of the limited partners of DPLP. Prior to May 1, 2006, the LP Class B Units, Series 1 were classified as non-controlling interest in accordance with EIC-151.

The LP Class A Units and LP Class B Units, Series 2 are entitled to vote at meetings of the limited partners of DPLP and each unit entitles the holder to a distribution equal to distributions on the LP Class B Units, Series 1. At December 31, 2006, 34,557,702 LP Class A Units (December 31, 2005 – 20,449,209), 8,565,095 LP Class B Units, Series 1 (December 31, 2005 – 8,337,365) and 296,852 LP Class B Units, Series 2 (December 31, 2005 – 1) were issued and outstanding. At December 31, 2006, 92,000 LP Class B Units, Series 1 were held in trust pursuant to the internalization of DMLP, 55,326 of which are included in the outstanding LP Class B Units, Series 1 at December 31, 2006. DRC is currently entitled to receive the units held in trust on June 30, 2007 (see Note 25). As at December 31, 2006, and December 31, 2005, all issued and outstanding LP Class A Units and LP Class B Units, Series 2 of DPLP are owned indirectly by Dundee REIT and have been eliminated in the consolidated balance sheets.

	REIT Units, Series A		LP Class B Units, Series 1		Cumulative foreign currency translation adjustment	Total	
	Number of units	Amount	Number of units	Amount		Number of units	Amount
<b>Unitholders' equity, January 1, 2006</b>	20,449,209	\$ 376,842	–	\$ –	\$ (5,100)	20,449,209	\$ 371,742
Net income	–	9,961	–	1,257	–	–	11,218
Distributions paid	–	(51,399)	–	(11,690)	–	–	(63,089)
Distributions payable	–	(6,393)	–	(1,620)	–	–	(8,013)
Public offering of REIT Units	10,190,000	319,981	–	–	–	10,190,000	319,981
Distribution Reinvestment Plan	811,261	24,106	19,255	611	–	830,516	24,717
Unit Purchase Plan	13,087	359	–	–	–	13,087	359
Deferred Unit Incentive Plan	22,888	1,170	–	–	–	22,888	1,170
Issue costs	–	(18,041)	–	–	–	–	(18,041)
Reclassification of LP B Units	–	–	8,337,365	151,706	(2,373)	8,337,365	149,333
Conversion of 6.5% Debentures	1,935,640	48,391	–	–	–	1,935,640	48,391
Conversion of 5.7% Debentures	1,135,617	34,069	–	–	–	1,135,617	34,069
Issue of units on internalization of property manager	–	–	505,326	13,917	–	505,326	13,917
Exchange of LP B Units	296,851	6,302	(296,851)	(6,302)	–	–	–
Release of cumulative foreign currency translation adjustment on disposition of revenue property (Note 26)	–	–	–	–	3,686	–	3,686
Change in foreign currency translation adjustment	–	–	–	–	(1,329)	–	(1,329)
<b>Unitholders' equity, December 31, 2006</b>	<b>34,854,553</b>	<b>\$ 745,348</b>	<b>8,565,095</b>	<b>\$ 147,879</b>	<b>\$ (5,116)</b>	<b>43,419,648</b>	<b>\$ 888,111</b>

## LP Class B Units, Series 1 and non-controlling interest

	LP Class B Units, Series 1		Cumulative	Total
	Number of units	Amount	foreign currency translation adjustment	
<b>Non-controlling interest, January 1, 2006</b>	8,337,365	\$ 149,056	\$ (2,080)	\$ 146,976
Income from continuing and discontinued operations	–	1,876	–	1,876
Distributions paid	–	(6,347)	–	(6,347)
Impact of dilution	–	7,121	–	7,121
Change in foreign currency translation adjustment	–	–	(293)	(293)
Reclassification to unitholders' equity	(8,337,365)	(151,706)	2,373	(149,333)
<b>Non-controlling interest, December 31, 2006</b>	–	\$ –	\$ –	\$ –

### Public offering of REIT Units

On December 12, 2006, the Trust completed a public offering of 4,110,000 REIT Units for gross proceeds of \$150,015 at a price of \$36.50 per REIT Unit. Costs relating to the offering of \$6,531 were charged directly to unitholders' equity.

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

On April 7, 2006, the Trust completed a public offering of 2,200,000 REIT Units for gross cash proceeds of \$61,050 at a price of \$27.75 per unit. On April 28, 2006, the Trust issued an additional 320,000 REIT Units for gross proceeds of approximately \$8,880 pursuant to the exercise of the over-allotment option granted to the underwriters. The exercise of the over-allotment option increased the total gross proceeds of the offering to approximately \$69,930. Costs relating to the offering of \$3,247 were charged directly to unitholders' equity. Prior to May 1, 2006, the Trust used the purchase method to account for the investment of the net proceeds in DPLP and recorded a purchase adjustment relating to the fair value increment of rental properties acquired of \$5,898.

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

### Distribution Reinvestment and Unit Purchase Plan

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

The DRIP allows unitholders, other than unitholders who are resident of or present in the United States, to elect to have all cash distributions from Dundee REIT reinvested in additional units. Unitholders who participate in the DRIP receive an additional distribution of REIT Units equal to 4% of each cash distribution that was reinvested. A similar distribution reinvestment arrangement exists for holders of LP B Units. The price per unit is calculated by reference to a five-day weighted average closing price of the REIT Units on the Toronto Stock Exchange preceding the relevant distribution date, which typically is on or about the 15th day of the month following the declaration.

For the year ended December 31, 2006, 811,261 REIT Units and 19,255 LP B Units were issued under the DRIP for \$24,717 (December 31, 2005 – 532,817 REIT Units and 413,281 LP B Units for \$24,576).

Prior to August 15, 2005, holders of LP B Units had their units enrolled in the LP B Unit DRIP. This was dilutive to the Trust's effective ownership in DPLP and accordingly the Trust recognized a \$1,890 dilution gain in 2005. Since that time, holders of LP B Units have elected to receive their distributions in the form of REIT Units, which are not dilutive to the Trust. In addition, no further dilution gains will be reported as a result of reclassifying the LP B Units as equity.

### **Unit Purchase Plan**

The Unit Purchase Plan feature of the DRIP allows existing unitholders to purchase additional REIT Units of Dundee REIT. Participation in the Unit Purchase Plan is optional and subject to certain limitations on the maximum number of additional REIT Units that may be acquired. The price per unit is calculated in a similar manner to the DRIP. No commission, service charges or brokerage fees are payable by participants in connection with either the reinvestment or purchase features of the DRIP.

For the year ended December 31, 2006, 13,087 REIT Units were issued under the Unit Purchase Plan for \$359 (December 31, 2005 – 8,725 REIT Units for \$232).

### **Conversion of debentures**

During the year ended December 31, 2006, the Trust issued 1,935,640 REIT Units upon conversion of \$48,391 principal amount of the 6.5% Debentures (December 31, 2005 – issued 81,040 REIT Units upon conversion of \$2,026 principal amount) and 1,135,617 REIT Units upon conversion of \$34,069 principal amount of the 5.7% Debentures (December 31, 2005 – nil).

### **Deferred Unit Incentive Plan**

The Deferred Unit Incentive Plan provides for the grant of Deferred Trust Units and Income Deferred Trust Units to trustees, officers and employees, and affiliates and their service providers. Deferred Trust Units are granted at the discretion of the trustees while Income Deferred Trust Units are credited to holders of Deferred Trust Units based on distributions paid on the REIT Units. Once vested, each Deferred Trust Unit and Income Deferred Trust Unit entitles the holder to receive a REIT Unit at no cost. Deferred Trust Units vest evenly over a three- or five-year period on the anniversary date of the grant, while Income Deferred Trust Units vest on the same date as the associated Deferred Trust Unit. Subject to an election for certain participants to postpone receipt of REIT Units, such units will be issued immediately upon vesting. Up to a maximum of 500,000 Deferred Trust Units are issuable under the Deferred Unit Incentive Plan. Compensation expense is recorded based on the fair market value of a REIT Unit at the date of grant and amortized as earned over the vesting period or the remaining service period of the participant, whichever period is less. During the year ended December 31, 2006, \$1,170 (December 31, 2005 – \$830) of compensation expense was recorded and is included in general and administrative expenses. Income Deferred Trust Units are accounted as a distribution and an issuance of REIT Units when the related Deferred Trust Units vest. No amount in relation to Income Deferred Trust Units is recognized in net income.

	Weighted average grant date value	Deferred Trust Units	Income Deferred Trust Units	Total units
Outstanding at January 1, 2005	\$ 22.70	151,143	12,542	163,685
Granted during the period	25.67	65,300	14,753	80,053
Cancelled	23.60	(1,600)	(146)	(1,746)
Issuance of REIT Units on vesting	22.70	(14,665)	(2,099)	(16,764)
Fractional units paid in cash	–	(11)	(9)	(20)
Outstanding at December 31, 2005	23.60	200,167	25,041	225,208
Granted during the period	<b>36.37</b>	<b>88,300</b>	<b>16,919</b>	<b>105,219</b>
Cancelled	<b>23.60</b>	<b>(3,000)</b>	<b>(237)</b>	<b>(3,237)</b>
Issuance of REIT Units on vesting	<b>23.67</b>	<b>(19,265)</b>	<b>(3,623)</b>	<b>(22,888)</b>
Fractional units paid in cash	–	(2)	(24)	(26)
<b>Outstanding and payable at December 31, 2006</b>	<b>\$ 27.87</b>	<b>266,200</b>	<b>38,076</b>	<b>304,276</b>
<b>Vested but not issued at December 31, 2006</b>	<b>\$ 22.76</b>	<b>72,267</b>	<b>18,459</b>	<b>90,726</b>

## 14.

### Joint ventures and co-ownerships

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

December 31	Total		Proportionate share	
	2006	2005	2006	2005
Assets	\$ 350,555	\$ 302,028	\$ 185,230	\$ 151,831
Liabilities	255,571	213,300	130,257	106,789
<hr/>				
For the years ended December 31			Proportionate share	
			2006	2005
Revenues			\$ 29,927	\$ 27,603
Expenses			25,880	22,225
			\$ 4,047	\$ 5,378
<hr/>				
Cash flow generated from (utilized in):				
Operating activities			\$ 7,944	\$ 9,375
Financing activities			5,466	(10,492)
Investing activities			(15,231)	1,376
<b>(Decrease) increase in cash and cash equivalents</b>			\$ (1,821)	\$ 259

The Trust is contingently liable for the obligations of the other owners of the unincorporated joint ventures at December 31, 2006, in the aggregate amount of \$122,001 (December 31, 2005 – \$101,944). In each case, however, the co-owners’ share of assets is available to satisfy these obligations.

## 15.

### Interest

Interest incurred and charged to earnings is recorded as follows:

For the years ended December 31	2006	2005
Interest expense incurred, at stated rate of debt	\$ 67,487	\$ 54,703
Amortization of deferred financing costs	1,922	1,523
Marked-to-market rate adjustment	(1,882)	(2,012)
Interest capitalized	(1,475)	(254)
<b>Interest expense</b>	\$ 66,052	\$ 53,960

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



## 16.

### Income and large corporations taxes

#### Dundee REIT

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

Canadian and U.S. based incorporated subsidiaries are subject to tax on their respective taxable income at their corresponding legislated rates. A future income tax liability as at December 31, 2006, of \$3,950 (December 31, 2005 – \$1,577) has been recorded to reflect the future tax obligations of these subsidiaries and comprises amounts resulting from the differences in tax and book values relating to the underlying rental properties. The reported carrying amount of Dundee REIT's net assets, excluding those in incorporated subsidiaries at December 31, 2006, exceeds the corresponding tax cost by approximately \$154,000 (December 31, 2005 – \$164,000). During the current year, the Trust recognized a \$2,378 future income tax expense related to the sale of a 50% interest in Greenbriar Mall. During the prior year, the Trust recorded a \$4,514 future tax recovery as a result of a provision for impairment in value of rental property recognized on its U.S. retail property.

## 17.

### Income per unit

The weighted average number of units outstanding was as follows:

For the years ended December 31	2006	2005
REIT Units	25,764,527	17,162,997
LP B Units	5,864,880	–
Vested Deferred Trust Units	53,185	22,352
<b>Total weighted average number of units outstanding for basic income per unit amounts</b>	<b>31,682,592</b>	<b>17,185,349</b>
Add incremental units:		
LP B Units	–	8,218,753
Unvested Deferred Trust Units	26,896	31,632
Income Deferred Trust Units	26,243	15,496
<b>Total weighted average number of units outstanding for diluted income per unit amounts</b>	<b>31,735,731</b>	<b>25,451,230</b>

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

For the years ended December 31	2006	2005
Income before discontinued operations for basic income per unit amounts	\$ 7,848	\$ 6,566
Add: Income attributable to non-controlling interest	–	2,511
Depreciation expense	–	111
Deduct: Dilution gain	–	(1,890)
<b>Income before discontinued operations for diluted per unit amounts</b>	<b>\$ 7,848</b>	<b>\$ 7,298</b>

The 2,763,894 incremental LP B Units for the period from January 1, 2006, to April 30, 2006, have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

The 5,505,054 incremental units of an assumed conversion of both debenture issues for the year ended December 31, 2006 (December 31, 2005 – 5,478,393 incremental units) have been excluded from the calculation of diluted net income per unit as they are anti-dilutive.

## 18.

### Employee future benefits

The Trust has a defined contribution pension plan available to all full-time employees who have been employed by the Trust for one year. The pension plan covers employees of the Trust, Dundee Realty Management Corp. and any other entity as appointed by the sponsor of the plan. The plan is sponsored by Dundee Realty Management Corp., a wholly owned subsidiary of DMLP. For 2006, the total cost recognized and cash payments for employee future benefits, consisting of cash contributed to the defined contribution plan, was \$191 (2005 – \$108).

## 19.

### Segmented information

The Trust's rental properties have been segmented into office and industrial components. The accounting policies of the segments are as described in the summary of significant accounting policies. Certain of the prior year's figures have been reclassified to conform with the current year's presentation as a result of reclassifying 19 flex properties from the industrial segment to the office segment because they possess characteristics closer to office properties. The Trust does not allocate interest expense to these segments, since leverage is viewed as a corporate function. The decision as to where to incur the debt is largely based on minimizing the cost of debt and is not specifically related to the segments. Similarly, income taxes and general and administrative expenses are not allocated to the segment expenses. Discontinued operations are not allocated to individual segments.

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

For the year ended December 31, 2006	Office	Industrial	Segment total	Other	Total
<b>Operations</b>					
Revenues	\$ 217,199	\$ 64,092	\$ 281,291	\$ 6,503	\$ 287,794
Operating expenses	95,852	22,998	118,850	3,300	122,150
Net operating income	121,347	41,094	162,441	3,203	165,644
Depreciation of rental properties	29,017	9,773	38,790	1,060	39,850
Amortization of deferred leasing costs, tenant improvements and intangibles	24,691	5,663	30,354	260	30,614
<b>Segment income</b>	<b>\$ 67,639</b>	<b>\$ 25,658</b>	<b>\$ 93,297</b>	<b>\$ 1,883</b>	<b>95,180</b>
Interest expense					(66,052)
General and administrative					(6,812)
Internalization of property manager					(13,678)
Loss on disposal of rental property					(220)
Interest and fee income					3,646
Income taxes					(2,376)
Income attributable to non-controlling interest					(1,840)
Discontinued operations					3,370
<b>Net income</b>					<b>\$ 11,218</b>
<b>Segment rental properties</b>	<b>\$ 1,381,034</b>	<b>\$ 404,157</b>	<b>\$ 1,785,191</b>	<b>\$ 31,620</b>	<b>\$ 1,816,811</b>
<b>Capital expenditures</b>					
Investment in rental properties	\$ (5,128)	\$ (3,968)	\$ (9,096)	\$ (77)	\$ (9,173)
Investment in tenant improvements	(5,552)	(1,833)	(7,385)	(282)	(7,667)
Investment in land development	-	-	-	(2,103)	(2,103)
Acquisition of rental properties and land	(408,878)	(37,892)	(446,770)	(37,897)	(484,667)
Deferred leasing costs	(4,396)	(1,683)	(6,079)	(18)	(6,097)
<b>Total capital expenditures</b>	<b>\$ (423,954)</b>	<b>\$ (45,376)</b>	<b>\$ (469,330)</b>	<b>\$ (40,377)</b>	<b>\$ (509,707)</b>

For the year ended December 31, 2005	Office	Industrial	Segment total	Other	Total
<b>Operations</b>					
Revenues	\$ 158,105	\$ 53,532	\$ 211,637	\$ 8,978	\$ 220,615
Operating expenses	74,312	20,068	94,380	4,796	99,176
Net operating income	83,793	33,464	117,257	4,182	121,439
Depreciation of rental properties	19,675	8,172	27,847	1,612	29,459
Amortization of deferred leasing costs, tenant improvements and intangibles	14,668	4,526	19,194	314	19,508
<b>Segment income</b>	<b>\$ 49,450</b>	<b>\$ 20,766</b>	<b>\$ 70,216</b>	<b>\$ 2,256</b>	<b>72,472</b>
Interest expense					(53,960)
General and administrative					(5,408)
Dilution gain					1,890
Provision for impairment in value of rental property					(11,533)
Interest and fee income					2,144
Income taxes					3,472
Income attributable to non-controlling interest					(2,511)
Discontinued operations					(2,257)
<b>Net income</b>					<b>\$ 4,309</b>
<b>Segment rental properties</b>	<b>\$ 913,866</b>	<b>\$ 365,128</b>	<b>\$ 1,278,994</b>	<b>\$ 49,401</b>	<b>\$ 1,328,395</b>
<b>Capital expenditures</b>					
Investment in rental properties	\$ (3,609)	\$ (3,722)	\$ (7,331)	\$ (502)	\$ (7,833)
Investment in tenant improvements	(5,599)	(2,805)	(8,404)	(629)	(9,033)
Acquisition of rental properties and land	(195,970)	(79,054)	(275,024)	–	(275,024)
Deferred leasing costs	(2,391)	(1,659)	(4,050)	(390)	(4,440)
<b>Total capital expenditures</b>	<b>\$ (207,569)</b>	<b>\$ (87,240)</b>	<b>\$ (294,809)</b>	<b>\$ (1,521)</b>	<b>\$ (296,330)</b>

## 20.

### Related-party transactions and arrangements

From time to time Dundee REIT and its subsidiaries enter into transactions with related parties that are conducted under normal commercial terms. Prior to May 1, 2006, Dundee REIT, DPLP, DMLP and DRC were parties to a property management agreement and an administrative services agreement (the “Management Agreement” and the “Services Agreement”). In addition, DMLP and DRC are parties to a separate administrative services agreement. Effective May 1, 2006, the Trust acquired DRC’s 50% interest in DMLP (see Note 25). As a result, DRC is no longer party to the Management Agreement, other than its rent supplement obligation and the Services Agreement.

### Master property management agreement

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

This Management Agreement also provides that DRC will pay a rent supplement to DPLP for a five-year period ending June 30, 2008, in the case of certain specified office and retail premises and a three-year period ended June 30, 2006, in the case of certain specified industrial premises. DRC will pay an amount equal to the difference between: (i) the amount that is the total net rent less amortized leasing costs with respect to the specified premises plus the additional rents that would be payable with respect to such premises if such premises were leased pursuant to the applicable standard lease for each premises; and (ii) the amount that is the actual base rent and additional rent received by DPLP for such premises, after deduction for amortization of leasing costs including, but not limited to, tenant inducements, landlord's work, free rent and leasing commissions paid by DPLP to lease any such premises.

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

#### Administrative services agreement

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

DMLP has also entered into a similar administration and support services agreement with DRC to provide certain administration services to DRC and its subsidiaries ("DRC Services Agreement"), the term of which has been extended until June 30, 2013.

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

For the years ended December 31	<b>2006</b>	2005
<b>Fees received</b>		
Rent supplement received by Dundee REIT under the Management Agreement (included in rental properties revenue)	\$ 1,336	\$ 2,272
Fees, cost recovery and rental income received by Dundee REIT under the DRC Services Agreement (included as a reduction of operating expenses)	1,431	534
<b>Fees paid</b>		
Fees paid by Dundee REIT under the Management Agreement prior to May 1, 2006		
Management fees, included in rental properties' operating expenses	1,346	3,634
Construction fees, capitalized to the related assets	98	485
Lease administration fees, included in deferred leasing costs	251	839
Fees paid by Dundee REIT under the Services Agreement prior to May 1, 2006		
Acquisition and financing fees, capitalized to the related assets	217	588

Included in amounts receivable at December 31, 2006, is \$231 related to the DRC Services Agreement (December 31, 2005 – \$215), as well as \$136 related to additional services provided to DRC. Included in accrued liabilities and other payables at December 31, 2006, is nil related to the Management and Services Agreements (December 31, 2005 – \$251). Accrued liabilities and other payables at December 31, 2006, also include \$316 for amounts collected on behalf of DRC (December 31, 2005 – nil). Included in interest and fee income is \$224 related to management services provided to Dundee Corporation, of which the full amount is included in amounts receivable at December 31, 2006.

## 21.

### Financial instruments and risk management

For certain of the Trust's financial instruments, including cash and short-term deposits, amounts receivable, vendor loan, amounts payable and accrued liabilities, and distributions payable, carrying amounts approximate fair values due to their immediate or short-term maturity. The fair values of the mezzanine loans, mortgages and term debt are determined by discounting the future contractual cash flows under current financing arrangements at discount rates that represent management's best estimate of borrowing rates presently available to the Trust for loans with similar terms and maturities. Specific fair values are disclosed in the related notes. The fair value of convertible debentures is based on the market value of the debentures on December 31, 2006.

The Trust has some exposure to interest rate risk primarily as a result of its variable rate debt. Variable rate debt at December 31, 2006, was 2.2% of the Trust's total debt (December 31, 2005 – 1.6%). In order to manage exposure to interest rate risk, the Trust endeavours to maintain an appropriate mix of fixed and floating rate debt, stagger maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

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

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

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

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

## 22.

### Discontinued operations

The fulfillment of obligations and realization of assets of properties noted below that were sold in prior periods have been reclassified as discontinued operations to comply with the disclosure requirements of the CICA Handbook Section 3475.

- On January 14, 2005, the Trust completed the sale of its 25% interest in 2301 and 2311 Royal Windsor Drive, two industrial buildings located in Mississauga, Ontario. A \$217 gain was recognized in 2005 on the sale.
- On November 15, 2005, the Trust completed the sale of Simcoe Town Centre, a 128,000 square foot retail property. A \$3,837 loss was recognized in 2005 on the sale.
- On June 29, 2006, the Trust completed the sale of Kameyosek Shopping Centre, a 46,143 square foot retail property. The Trust received proceeds of \$8,375 and recognized a gain on sale of \$3,274.

For the years ended December 31	2006		2005
<b>Revenues</b>			
Rental properties revenue	\$	177	\$ 2,285
<b>Expenses</b>			
Rental properties operating expenses		(87)	898
Interest		-	251
Depreciation of rental properties		58	284
Amortization of deferred leasing costs		29	477
		-	1,910
Income before the undernoted item		177	375
Gain (loss) on sale of rental properties, net		3,229	(3,620)
Income (loss) from discontinued operations before non-controlling interest		3,406	(3,245)
(Income) loss attributable to non-controlling interest		(36)	988
<b>Income (loss) from discontinued operations</b>	<b>\$</b>	<b>3,370</b>	<b>\$ (2,257)</b>

## 23.

### Commitments and contingencies

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

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

Years ending December 31	Operating lease payments	Capital lease payments	Ground lease payments
2007	\$ 1,315	\$ 128	\$ 1,141
2008	1,154	117	1,113
2009	962	-	1,112
2010	668	-	573
2011	660	-	32
2012 and thereafter	1,300	-	33
<b>Total</b>	<b>\$ 6,059</b>	<b>\$ 245</b>	<b>\$ 4,004</b>

Dundee REIT has four ground leases on three properties. The terms of the first two leases extend to 2083 and 2076; the last two extend to 2060, including renewals. The leases are at fixed rates for the entire term with respect to the first and the third lease, until September 30, 2007, for the second lease and until June 30, 2010, for the fourth. The renewal terms beyond these dates for the second and fourth leases are defined as variable percentages of the market value of these properties at the date of the renewal.

### Purchase and other obligations

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

The Trust has entered into lease agreements that require tenant improvement costs of \$2,088. The amounts are expected to be paid in 2007.

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

The Trust has entered into conditional contracts to acquire an additional \$424,309 of rental properties.

## 24. Supplementary cash flow information

For the years ended December 31	2006	2005
Decrease (increase) in accounts receivable	\$ (2,511)	\$ 306
Decrease in deferred costs (other than leasing costs)	1,249	560
Increase in prepaid expenses and other assets (excluding restricted cash and mezzanine loans)	(2,052)	(1,723)
Increase in accounts payable and accrued liabilities (excluding leasing costs)	7,769	5,867
Increase (decrease) in accounts payable relating to leasing costs	(1,046)	902
<b>Change in non-cash working capital</b>	<b>\$ 3,409</b>	<b>\$ 5,912</b>

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

For the years ended December 31	2006	2005
Interest	\$ 66,855	\$ 52,446
Income and large corporations taxes	175	186

## 25. Internalization of property manager

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

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

In conjunction with the transaction, DMLP and DRC agreed to extend the term of the DRC Services Agreement under which DMLP provides administrative and advisory services to DRC for an additional five years to June 30, 2013 (see Note 20). Also, the terms of the LP B Units were amended to provide that they may not be transferred to a third party other than a subsidiary of the holder (see Note 13).

On closing, 450,000 LP B Units were issued for total consideration of \$12,393, of which \$417 was allocated to the net tangible assets of DMLP acquired and \$12,154 (including \$178 of transaction costs) was expensed. The \$27.54 issue price per LP B Unit was estimated based on a five-day weighted average trading price of REIT Units on the Toronto Stock Exchange with the midpoint being May 4, 2006, the date the substantive terms of the internalization were publicly announced, net of an implied discount for issuance costs.

Also on closing, 92,000 LP B Units were issued, placed in trust and enrolled in the DRIP to satisfy the maximum number of units that DRC may be entitled to receive on June 30, 2007. The cost of these units will be expensed and added to cumulative capital as qualifying properties are acquired. Any units that are not ultimately issued to DRC as additional consideration will be returned to DMLP for cancellation. During the year ended December 31, 2006, DPLP acquired \$340,568 of qualifying properties and accordingly \$1,524 was expensed and added to cumulative capital representing the cost of the additional 55,326 LP B Units DRC will be entitled to receive on June 30, 2007.

## 26.

### **Disposition of revenue property**

On June 2, 2006, the Trust completed the sale of a 50% interest in Greenbriar Mall located in Atlanta for net proceeds of \$16,681 and recorded a \$220 loss on the sale. As a result of the disposition, the Trust released a \$3,686 cumulative foreign currency loss from its foreign currency translation adjustment, which was recognized as part of the loss on disposal. In the year ended December 31, 2005, the Trust recorded an impairment loss of \$11,533 relating to Greenbriar Mall. The disposition of Greenbriar Mall has not been presented as a discontinued operation as the Trust still has a significant continuing involvement in its operations.

## 27.

### **Subsequent events**

Effective January 9, 2007, the Trust completed the purchase of 30 and 55 St. Clair Avenue West in Toronto, Ontario, for a purchase price of \$110,752. The properties consist of two office buildings totalling 426,000 square feet.

Effective January 24, 2007, the Trust completed the purchase of 625 Agnes Street, New Westminster, B.C., for a purchase price of \$14,598. The property consists of a 83,000 square foot multi-tenant office building.

On February 12, 2007, the Trust announced that it had entered into an agreement to issue 3,700,000 REIT Units at a price of \$40.75 per unit for gross proceeds of \$150,775. Costs relating to the offering are estimated to be \$6,605 and will be charged directly to unitholders' equity. In addition, the Trust has granted the underwriters an over-allotment option up to an additional 555,000 REIT Units, which, if exercised, would increase the gross proceeds to \$173,391.



## Trustees and officers

### Trustees

Dr. Günther Bautz<sup>1</sup>

*Ulm, Germany*

Counsellor on Intellectual Property, Braun GmbH

Detlef Bierbaum<sup>2,4</sup>

*Köln, Germany*

Partner, Bankhaus Sal. Oppenheim jr. & Cie, KGaA

Donald K. Charter

*Toronto, Ontario*

Corporate Director and President, 3C's Corporation

Michael J. Cooper<sup>2</sup>

*Toronto, Ontario*

Vice Chairman and Chief Executive Officer

Dundee REIT

Peter A. Crossgrove<sup>1,3,4</sup>

*Toronto, Ontario*

Corporate Director

Robert G. Goodall<sup>1,3</sup>

*Mississauga, Ontario*

President, Canadian Mortgage Capital Corporation

David J. Goodman

*Toronto, Ontario*

President and Chief Executive Officer

Goodman & Company

Ned Goodman<sup>2,3,5</sup>

*Innisfil, Ontario*

President and Chief Executive Officer, Dundee Corporation

Duncan Jackman<sup>4</sup>

*Toronto, Ontario*

Chairman and Chief Executive Officer

E-L Financial Corporation Limited

Robert Tweedy<sup>4</sup>

*Toronto, Ontario*

Chairman, Useppa Holdings Limited and

Chairman, Sklar Peppler Furniture Corporation

### Officers

Ned Goodman

Chairman

Michael J. Cooper

Vice Chairman and Chief Executive Officer

Michael Knowlton

President and Chief Operating Officer

Mario Barrafato

Senior Vice President and Chief Financial Officer

Jane Gavan

Corporate Secretary

<sup>1</sup> Member of the Audit Committee

<sup>2</sup> Member of the Investment Committee

<sup>3</sup> Member of the Compensation Committee

<sup>4</sup> Member of the Governance and Environmental Committee

<sup>5</sup> Chairman of the Board of Trustees

## Corporate information

### Head office

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Phone: (416) 365-3535  
Fax: (416) 365-6565

### Transfer agent

(for change of address, registration or other unitholder inquiries)

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100 University Avenue, 9th Floor  
Toronto, Ontario M5J 2Y1  
Phone: (514) 982-7555 or  
1 800 564-6253  
Fax: (416) 263-9394 or  
1 888 453-0330  
E-mail: [service@computershare.com](mailto:service@computershare.com)

### Auditors

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Toronto-Dominion Centre  
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### Corporate counsel

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### Investor relations

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Web site: [www.dundeereit.com](http://www.dundeereit.com)

### Taxation of distributions

Distributions paid to unitholders in respect of the tax year ending December 31, 2006, are taxed as follows:

Other income: 28.9%  
Taxable capital gains: 1.8%  
Return of capital: 69.3%

Management estimates that 60% of the distributions to be made by the REIT in 2007 will be tax deferred.

### Stock exchange listing

The Toronto Stock Exchange

### Listing symbols

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

### Annual Meeting of Unitholders

Thursday, May 3, 2007, at 4:00 p.m.  
TSX Broadcast Centre – Gallery  
The Exchange Tower  
130 King Street West  
Toronto, Ontario

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

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

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

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

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

To enrol contact:

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

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

For more information you may also visit our web site:  
[www.dundeereit.com](http://www.dundeereit.com)





 **DUNDEE**  
**R·E·I·T**

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