First Quarter 2009 Report to Unitholders

Financial Results

The following results are presented on a combined basis for H&R Real Estate Investment Trust ("H&R REIT") and H&R Finance Trust (collectively, "H&R").

The table below includes non-GAAP information that should not be construed as an alternative to net earnings or cash flows from operations and may not be comparable to similar measures presented by other issuers as there is no standardized meaning of adjusted funds from operations (AFFO) or distributable cash under GAAP. Financial information for the period ending after October 1, 2008 is presented herein on a combined and/or stapled basis. Financial information for the period ended prior to October 1, 2008 is presented for H&R REIT.

	3 months ended March 31	
	2009	2008
AFFO (millions) *	$59.6	$52.9
AFFO per stapled unit (basic)	$0.40	$0.39
Distributable cash (millions) *	$62.4	$55.2
Distributable cash per stapled unit (basic)	$0.42	$0.41
Cash distributions (millions)	$26.5	$48.8
Cash distributions per stapled unit	$0.18	$0.36

AFFO increased 13% in the three months ended March 31, 2009 and rose 4% per unit (basic) primarily due to completion of property developments and a favourable change in foreign exchange rates. Total distributable cash also rose 13% compared to the first quarter last year. Cash distributions per unit decreased 50% after distributions were reduced in January 2009 to preserve capital to fund H&R's development project – The Bow in Calgary.

In accordance with GAAP, net earnings per unit decreased 48% to $0.16, primarily due to a $14-million reduction in gains from sales of income properties and an impairment loss on income properties of $8 million recognized in the first quarter this year. As at March 31, 2009, H&R reported financial ratios of 54.2% for debt to gross book value (calculated in accordance with H&R REIT's declaration of trust), and 51.8% for non-recourse debt to total debt.

The Bow Development Project

H&R REIT is currently building The Bow, a two million square foot office building in Calgary's downtown financial district. EnCana Corporation will be head-leasing the entire office tower and all underground parking spaces on a triple-net basis for an initial term of 25 years. As at March 31, 2009, H&R REIT had incurred approximately $420 million of the $1.33-billion budget (excluding capitalized interest costs for accounting purposes). H&R has obtained an appraisal from a leading national appraisal firm indicating the estimated fair market value of The Bow to be $1.36 billion, upon completion and full occupancy and based on market conditions as at April 1, 2009. H&R has successfully secured a $425-million construction facility for the project, and has locked in 80% of its budgeted costs.

Bell Corporate Centre Financing

H&R REIT has also secured a firm commitment from a Canadian pension fund for an $85-million, 5-year first mortgage financing with a fixed interest rate of 6.5% for the Bell Corporate Centre Phase III expansion. The property is a new 348,000 square foot, state-of-the-art office complex located in Mississauga, Ontario, which is 100% leased to Bell Canada for a 20-year term that commenced January 1, 2009 under a triple-net lease. Funding of the financing, subject to certain customary conditions, is expected to occur in July 2009.

Tom Hofstedter

President and Chief Executive Officer
May 14, 2009

Unaudited Combined Financial Statements of

H&R REAL ESTATE INVESTMENT TRUST

and

H&R FINANCE TRUST

For the three months ended March 31, 2009 and 2008

H&R REAL ESTATE INVESTMENT TRUST
H&R FINANCE TRUST

Unaudited Combined Balance Sheets
(In thousands of dollars)

	March 31 2009	December 31 2008
	(Unaudited)	(note 2)
Assets		
Income properties (note 3)	**$ 4,646,259**	$ 4,545,634
Properties under development	**531,325**	590,196
Accrued rent receivable	**121,548**	117,266
Mortgages and amount receivable (note 4)	**85,649**	90,071
Other assets (note 5)	**105,998**	86,653
	$ 5,490,779	$ 5,429,820
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 6)	**$ 3,158,291**	$ 3,157,470
Convertible debentures (note 7)	**105,258**	104,820
Bank indebtedness (note 8)	**131,287**	112,934
Intangible liabilities	**63,663**	64,302
Accounts payable and accrued liabilities	**163,822**	131,506
Future income tax liability	**137,875**	133,300
	3,760,196	3,704,332
Non-controlling interest (note 9)	**74,795**	75,367
Unitholders' equity (notes 10 and 11)	**1,655,788**	1,650,121
Commitments and contingencies (note 22)		
Subsequent events (note 25)		
	$ 5,490,779	$ 5,429,820

See accompanying notes to combined financial statements.

H&R REAL ESTATE INVESTMENT TRUST
H&R FINANCE TRUST

Unaudited Combined Statements of Earnings
(In thousands of dollars, except per unit amounts)

	Three Months Ended March 31	
	2009	2008
		(note 2)
Operating revenue:		
Rentals from income properties (note 12)	**$ 158,152**	$ 147,299
Mortgage interest and other income	**1,824**	596
	159,976	147,895
Operating expenses:		
Property operating costs	**52,259**	47,386
Interest (note 13)	**44,531**	42,786
Depreciation and amortization (note 14)	**32,353**	29,863
	129,143	120,035
Net property operating income (note 20)	**30,833**	27,860
Gain on foreign exchange	**4,895**	-
Impairment loss on income properties (note 3)	**(8,229)**	-
Trust expenses	**(1,863)**	(1,495)
Net earnings before income taxes, non-controlling interest and discontinued operations	**25,636**	26,365
Income taxes (note 23)	**(4,588)**	(2,394)
Net earnings before non-controlling interest and discontinued operations	**21,048**	23,971
Non-controlling interest (note 9)	**(353)**	(1,241)
Net earnings from continuing operations	**20,695**	22,730
Net earnings from discontinued operations (note 21)	**1,403**	16,883
Net earnings	**$ 22,098**	$ 39,613
Basic net earnings per unit (note 15):		
Continuing operations	**$ 0.15**	$ 0.18
Discontinued operations	**0.01**	0.13
	$ 0.16	$ 0.31
Diluted net earnings per unit (note 15):		
Continuing operations	**$ 0.14**	$ 0.18
Discontinued operations	**0.01**	0.13
	$ 0.15	$ 0.31

See accompanying notes to combined financial statements.

H&R REAL ESTATE INVESTMENT TRUST
H&R FINANCE TRUST

Unaudited Combined Statements of Unitholders' Equity and Comprehensive Income
(In thousands of dollars)

UNITHOLDERS' EQUITY	Value of Units	Accumulated Net Earnings	Accumulated Distributions	Equity Component of Convertible Debentures	Accumulated Other Comprehensive Loss (note 11)	Total
Unitholders' equity, December 31, 2007	$ 1,829,111	$ 654,348	$ (941,613)	$ -	$ (85,210)	$ 1,456,636
Adjustment to unitholders' equity to comply with new accounting standard (note 2)	-	(8,824)	-	-	-	(8,824)
Unitholders' equity, January 1, 2008	1,829,111	645,524	(941,613)	-	(85,210)	1,447,812
Proceeds from issuance of units (note 10)	12,020	-	-	-	-	12,020
Net earnings	-	39,613	-	-	-	39,613
Cash distributions to unitholders	-	-	(46,329)	-	-	(46,329)
Other comprehensive income	-	-	-	-	7,819	7,819
Unitholders' equity, March 31, 2008	1,841,131	685,137	(987,942)	-	(77,391)	1,460,935
Proceeds from issuance of units (note 10)	332,883	-	-	-	-	332,883
Issue costs	(7,781)	-	-	-	-	(7,781)
Equity component from issuance of convertible debentures, net of costs (note 7)	-	-	-	6,767	-	6,767
Exchange of Class B units of HRLP (note 9)	21,745	-	-	-	-	21,745
Net earnings	-	58,093	-	-	-	58,093
Cash distributions to unitholders	-	-	(148,281)	-	-	(148,281)
Non-cash distribution as a return of capital, pursuant to the Plan of Arrangement	-	-	(132,500)	-	-	(132,500)
Unit-based compensation	74	-	-	-	-	74
Other comprehensive income	-	-	-	-	58,186	58,186
Unitholders' equity, December 31, 2008	2,188,052	743,230	(1,268,723)	6,767	(19,205)	1,650,121
Proceeds from issuance of units (note 10)	**4,532**	**-**	**-**	**-**	**-**	**4,532**
Net earnings	**-**	**22,098**	**-**	**-**	**-**	**22,098**
Cash distributions to unitholders	**-**	**-**	**(25,570)**	**-**	**-**	**(25,570)**
Unit-based compensation	**63**	**-**	**-**	**-**	**-**	**63**
Other comprehensive income	**-**	**-**	**-**	**-**	**4,544**	**4,544**
Unitholders' equity, March 31, 2009	**$ 2,192,647**	**$ 765,328**	**$ (1,294,293)**	**$ 6,767**	**$ (14,661)**	**$ 1,655,788**

COMPREHENSIVE INCOME	Three Months Ended March 31 2009	2008 (note 2)
Net earnings	**$ 22,098**	$ 39,613
Unrealized gain on translation of self-sustaining foreign operations	**4,428**	11,735
Loss on derivates designated as cash flow hedges	**-**	(3,372)
Transfer of realized loss on cash flow hedges to net earnings	**176**	103
Future income taxes (note 23)	**(60)**	(647)
Other comprehensive income	**4,544**	7,819
Comprehensive income	**$ 26,642**	$ 47,432

See accompanying notes to combined financial statements.

H&R REAL ESTATE INVESTMENT TRUST
H&R FINANCE TRUST

Unaudited Combined Statements of Cash Flows
(In thousands of dollars)

	Three Months Ended March 31 2009	2008
Cash provided by (used in):		(note 2)
Operations:		
Net earnings	**$ 22,098**	$ 39,613
Items not affecting cash:		
Rent amortization (notes 12 and 21)	**929**	314
Depreciation and amortization (notes 14 and 21)	**33,213**	30,218
Gain on sale of income properties (note 21)	**(424)**	(14,407)
Future income taxes (note 23)	**4,515**	1,783
Unrealized foreign exchange gain	**(4,915)**	-
Impairment loss on income properties	**8,229**	
Accretion on debt component of convertible debentures	**438**	-
Other	**654**	546
Net earnings attributable to non-controlling interest (note 9)	**407**	2,158
Change in other non-cash operating items (note 16)	**4,774**	11,049
	69,918	71,274
Financing:		
Bank indebtedness	**18,353**	60,837
Mortgages payable:		
New mortgages payable	**-**	3,971
Principal repayments	**(29,158)**	(34,016)
Proceeds from issuance of units, net	**4,532**	12,020
Distributions to unitholders (note 10(a))	**(25,570)**	(46,329)
Distributions to non-controlling interest (note 9)	**(979)**	(2,511)
	(32,822)	(6,028)
Investments:		
Properties under development	**(52,723)**	(89,136)
Income properties:		
Net proceeds on disposition of income properties	**20,207**	38,296
Acquisitions and capital expenditures	**(122)**	(23,304)
Mortgages and amounts receivable	**(211)**	(35)
Restricted cash (note 5)	**(5,636)**	3,899
	(38,485)	(70,280)
Decrease in cash and cash equivalents	**(1,389)**	(5,034)
Cash and cash equivalents, beginning of year	**17,683**	12,537
Cash and cash equivalents, end of period (note 5)	**$ 16,294**	$ 7,503
Supplemental cash flow information:		
Interest paid	**$ 46,352**	$ 47,403
Supplemental disclosure of non-cash financing and investing activities:		
Acquisitions of income properties through assumption of mortgages payable	**-**	57,253
Release of mortgage obligation upon lender consent (note 4)	**(4,633)**	-

See accompanying notes to combined financial statements.

These combined financial statements include the accounts of H&R Real Estate Investment Trust (the "REIT") and H&R Finance Trust ("Finance Trust"). These combined financial statements are presented as supplementary information to the financial statements of the REIT and Finance Trust (collectively, the "Trusts"), all of which are filed on SEDAR.

The REIT is an unincorporated open-ended trust and Finance Trust is an unincorporated investment trust. Unitholders of the Trusts participate pro rata in distributions of income and, in the event of termination of the Trusts, participate pro rata in the net assets remaining after satisfaction of all liabilities.

The combined financial statements are a result of the REIT's completion of an internal reorganization on October 1, 2008 pursuant to a Plan of Arrangement (the "Plan of Arrangement") as described in the REIT's information circular dated August 20, 2008 resulting in the stapling of the REIT and Finance Trust units. The Plan of Arrangement resulted in, among other things, the creation on October 1, 2008 of Finance Trust. Each unitholder received, for each REIT unit held, a unit of Finance Trust. Each issued and outstanding Finance Trust unit is stapled to a unit of the REIT on a one-for-one basis so as to form stapled units ("Stapled Units"), and such Stapled Units are listed and posted for trading on the Toronto Stock Exchange ("TSX"). The units of each of the REIT and Finance Trust may only be transferred together as Stapled Units unless an "event of uncoupling" has occurred.

On October 1, 2008, the following steps were taken pursuant to the Plan of Arrangement:

- The REIT established Finance Trust pursuant to the Finance Trust Declaration of Trust, and subscribed for 146,054,669 units at a subscription price of approximately $132,500.

- The REIT made a distribution to its unitholders, as a return of capital, consisting of one Finance Trust unit for each REIT unit.

- The REIT transferred certain intercompany loans receivable from H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco"), a wholly owned U.S. subsidiary of the REIT, to Finance Trust in consideration for cash of approximately U.S. $125,000.

- Finance Trust transferred certain loans to a wholly owned U.S. subsidiary of the REIT in consideration for a note payable by such subsidiary in a principal amount of U.S. $125,000 (the "Subco Note"). Finance Trust then transferred the Subco Note to U.S. Holdco in consideration for notes payable in the aggregate principal amount of U.S. $125,000 (the "U.S. Holdco Notes").

The presentation of combined financial statements of the Trusts is useful to the unitholders on the following basis:

- The units of the REIT and Finance Trust are stapled (as noted above), resulting in the two Trusts being under common ownership;

- A support agreement between the REIT and Finance Trust ensures that, until such time as an event of uncoupling occurs, when units are issued by the REIT, units must also be issued by Finance Trust simultaneously so as to maintain the stapled unit structure;

- The sole activity of Finance Trust is to provide capital funding to U.S. Holdco; and

- The investment activities of Finance Trust are restricted in its Declaration of Trust to providing such funding to U.S. Holdco and to make temporary investments of excess funds.

1. Significant accounting policies:

In the opinion of the Trusts, the accompanying interim combined financial statements contain all the adjustments necessary to present fairly the financial position as at March 31, 2009 and December 31, 2008 and the results of operations and cash flows for the three months ended March 31, 2009 and 2008. Canadian generally accepted accounting principles ("GAAP") requires additional disclosures for annual financial statements and accordingly, it is suggested these combined financial statements be read in conjunction with the audited financial statements and notes for the year ended December 31, 2008.

The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results for the full year.

The interim combined financial statements follow the same accounting policies and methods of their application as the December 31, 2008 annual audited combined financial statements, except as described in note 2 below.

2. Change in accounting policies:

Goodwill and intangible assets

Effective January 1, 2009, the Trusts adopted the new recommendation of The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, on a retroactive basis by adjusting the prior year. This new section replaces Section 3062, Goodwill and Other Intangible Assets, and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of Section 3064 had no impact on Finance Trust.

Commencing January 1, 2009, the REIT no longer defers capital cost expenditures recoverable from its tenants and no longer records the amortization of these deferred expenditures over the period which revenue is collected from tenants. This change requires the REIT to capitalize capital expenditures recoverable from its tenants and amortize it over the useful life of the asset. If the capitalization criteria is not met, the REIT expenses the full amount in the period incurred.

The adoption by the REIT of the new standards requires retroactive application to the 2008 quarterly and annual combined financial statements on January 1, 2009 as follows:

(In thousands of dollars, except unit and per unit amounts)

Balance Sheet

Impact of adjustment as at December 31, 2008	Increase (decrease)
Income properties	$ 9,142
Deferred expenses	(19,220)
Assets	(10,078)
Non-controlling interest	(430)
Opening accumulated net earnings as at January 1, 2008	(8,824)
Net earnings for the year ended December 31, 2008	(824)
Unitholders' Equity	(9,648)
	$ (10,078)

Statement of Earnings

Impact of adjustment Increase (decrease)	For the three months ended March 31 2008	June 30 2008	September 30 2008	December 31 2008	For the year ended December 31 2008
Property operating costs	$ 633	$ 562	$ 1,177	$ 740	$ 3,112
Depreciation and amortization	(430)	(509)	(629)	(501)	(2,069)
Net earnings from discontinued operations	-	138	-	81	219
Net earnings	(203)	85	(548)	(158)	(824)
Net earnings per unit - basic and diluted	-	-	-	-	-

Statement of Cash Flows

There was no impact on the statement of cash flows as the amounts adjusted only impacts items within cash provided by operations.

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is to be applied retrospectively without adjustment of prior periods in interim and annual financial statements for periods ending on or after January 20, 2009. The Trusts adopted this recommendation in its fair value determinations effective January 1, 2009. The adoption of this guideline did not have any material effect on the Trusts' results, financial position or cash flows.

(In thousands of dollars, except unit and per unit amounts)

3. Income properties:

March 31, 2009	**Cost**	**Accumulated depreciation and amortization**	**Net book value**
Land	**$ 932,793**	**$ -**	**$ 932,793**
Buildings	**3,493,668**	**(405,548)**	**3,088,120**
Building improvements (note 2)	**13,519**	**(4,631)**	**8,888**
Paving and equipment	**142,738**	**(53,237)**	**89,501**
	4,582,718	**(463,416)**	**4,119,302**
Intangible assets	**492,307**	**(114,835)**	**377,472**
Income properties held for sale (note 21)	**154,734**	**(5,249)**	**149,485**
	$ 5,229,759	**$ (583,500)**	**$ 4,646,259**

December 31, 2008 (note 2)	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 927,554	$ -	$ 927,554
Buildings	3,482,780	(383,557)	3,099,223
Building improvements (note 2)	13,519	(4,377)	9,142
Paving and equipment	149,926	(49,835)	100,091
	4,573,779	(437,769)	4,136,010
Intangible assets	486,676	(105,856)	380,820
Income properties held for sale (note 21)	32,226	(3,422)	28,804
	$ 5,092,681	$ (547,047)	$ 4,545,634

Two industrial properties are currently held for sale as at March 31, 2009 (one industrial and one retail property as at December 31, 2008). The results of operations from these properties have been disclosed as part of discontinued operations (note 21).

During the three months ended March 31, 2009, one income property occupied by the tenant, Circuit City, was impaired by $8,229 following a test for impairment triggered by the tenant vacating the premises following their bankruptcy announcement.

Legal title to each of the United States properties is held by a separate legal entity which is 100% owned, directly or indirectly, by U.S. Holdco. The assets of each such separate entity are not available to satisfy the debts or obligations of any other person or entity. Each such separate entity maintains separate books and records. The identity of the owner of a particular United States property is available from U.S. Holdco. This structure does not prevent distributions to the entity owners provided there are no conditions of default.

4. Mortgages and amount receivable:

The REIT has mortgages receivable which are secured by income properties or properties under development as follows:

(In thousands of dollars, except unit and per unit amounts)

	March 31 2009	December 31 2008
Mortgage receivable bearing interest at 5.30% per annum and repayable on December 13, 2009	**$ 16,395**	$ 16,360
Mortgage receivable bearing interest at prime plus 1.15% per annum and repayable 60 days after demand but not earlier than July 28, 2009	**3,200**	3,200
Mortgage receivable bearing contractual interest at 6.00% per annum and repayable on December 1, 2010	**57,226**	57,050
Mortgage receivable bearing interest at 6.00% per annum and repayable on December 1, 2013	**3,000**	3,000
Amount receivable *	**5,828**	10,461
	$ 85,649	$ 90,071

* In conjunction with the sale of 10 income properties on June 26, 2008, the purchaser agreed to assume an aggregate mortgage balance of $82,575, and indemnify the REIT until such time that the lenders consent and release the REIT in respect of these mortgages. During the year ended December 31, 2008, the REIT was legally released from its obligation on eight income properties and during the three months ended March 31, 2009, the mortgage on one income property was repaid upon maturity. At March 31, 2009, the REIT has not been legally released from its mortgage obligation for the remaining one income property, resulting in an outstanding aggregate mortgage balance of $5,828. As a result, the REIT recorded an amount receivable from the purchaser at fair value, which is equivalent to the contractual mortgage payable balance outstanding as at March 31, 2009 as the mortgage is due on demand, and continues to record the aggregate mortgage payable balance as at March 31, 2009. The amount receivable balance is due on demand if: i) the lender does not consent to the assumption of the mortgage payable balance by the purchaser, resulting in the outstanding mortgage payable balance being due on demand by the lender; and ii) the purchaser fails to fulfill the contractual mortgage payments under the original debt agreement.

5. Other assets:

	March 31 2009	December 31 2008
Deferred leasing expenses	**$ 28,507**	$ 28,276
Tenant inducements	**28,357**	14,997
Cash and cash equivalents*	**16,294**	17,683
Prepaid expenses and sundry assets	**15,772**	13,765
Restricted cash	**10,140**	4,504
Accounts receivable	**6,928**	7,428
	$ 105,998	$ 86,653

* Cash and cash equivalents at March 31, 2009 includes cash on hand of $10,342 (December 31, 2008 - $15,367), bank term deposits of $5,952 (December 31, 2008 - $2,316) at rates of interest varying between 0.30% to 1.95% (December 31, 2008 – 0.75% to 2.05%).

(In thousands of dollars, except unit and per unit amounts)

6. Mortgages payable:

The mortgages payable are secured by income properties and letters of credit in certain cases, bear fixed interest with a weighted average rate of 6.2% (December 31, 2008 – 6.2%) per annum and mature between 2009 and 2035. Included in mortgages payable at March 31, 2009 are U.S. dollar denominated mortgages of U.S. $855,809 (December 31, 2008 - U.S. 861,232). The Canadian equivalents of these amounts are $1,078,319 (December 31, 2008 - $1,050,703).

Debt related to certain Canadian properties is held by separate legal entities, where the rent received from each property is first used to satisfy the related debt obligations with any balance then available to satisfy the cash flow requirements of the REIT.

Future principal mortgage payments are as follows:

Years ending December 31:	
2009	$ 110,463
2010	122,505
2011	176,372
2012	390,322
2013	203,650
Thereafter	1,978,776
	2,982,088
Mortgages payable due on demand*	172,688
Mortgage payable on income property sold (contractual amount $5,828 - note 4)	6,122
Deferred financing cost and mark-to-market adjustment arising on acquisitions	(2,607)
	$ 3,158,291

* relates to eight non-recourse mortgages to the REIT for income properties in which the tenants, Boscov's Department Stores and Circuit City, have filed for protection under Chapter 11 of the United States Bankruptcy Code. The REIT has handed over control of seven of these income properties to the lenders and therefore expects to be released from any further obligations under these non-recourse mortgages upon the transfer of title to the lenders.

7. Convertible debentures:

In June 2008, the REIT completed a public offering of $115,000 convertible unsecured subordinated debentures, bearing interest at the annual contractual rate of 6.65% and an effective interest rate of 9.10%. The debentures mature on June 30, 2013, and interest is payable semi-annually on June 30 and December 31. Each debenture is now convertible into freely tradeable Stapled Units at the holder's option at: (i) any time prior to the maturity date and (ii) the business day immediately preceding the date specified by the REIT for redemption of the debentures, at a conversion price of $23.11 per Stapled Unit, being a conversion rate of approximately 43.2713 Stapled Units per $1 principal amount, subject to adjustment upon the occurrence of certain events in accordance with the Indenture governing the debentures. The REIT has entered into a Support Agreement with Finance Trust whereby Finance Trust agreed to issue its units to converting debenture holders if the debt holders convert (note 10(b)).

On redemption or at maturity of the debentures, the REIT may, at its option and subject to certain conditions, elect to satisfy its obligation to repay all or any portion of the principal amount of the debentures that are to be redeemed or that are to mature through the issuance of Stapled Units by way of issuing (or causing it to be issued) a variable number of Stapled Units equal to the principal amount of the debentures that are to be redeemed or that are to mature divided by 95% of the then fair market value of the Stapled Units. The debentures may not be redeemed by the REIT on or before June 30, 2011. Thereafter, but prior to June 30, 2012, the debentures may be redeemed, in whole or in part, only if the current market price of a Stapled Unit is at least 125% of the conversion price. On or after June 30, 2012 and prior to the maturity date, the debentures may be redeemed by the REIT, in whole or in part, at a price equal to the principal amount plus accrued interest.

The REIT accounts for convertible debentures by valuing the holders' option to convert into Stapled Units and classifying such value as equity. The remaining value of the convertible debentures is classified as debt. Interest expense is recorded as a charge to income and is calculated at an effective rate with the difference between the coupon rate and the effective rate being credited to the debt component of the convertible debentures such that, at maturity, the debt component is equal to the face value of the then outstanding convertible debentures.

On issuance, the REIT recorded a liability of $103,717, net of issue costs of $4,239, and equity, which represents the holders' option to convert the debentures into Stapled Units, of $6,767, net of issue costs of $277. As at March 31, 2009, the carrying value of the convertible debentures outstanding was $105,258 (2008 - $104,820).

8. Bank indebtedness:

The REIT has the following two facilities:

(a) A general operating facility which is secured by fixed charges over certain income properties due on August 15, 2009. The total facility at March 31, 2009 is $296,592 (December 31, 2008 - $286,564) and can be drawn in either Canadian or U.S. dollars (to a maximum of $100,000 Canadian for U.S. borrowings). The amount available at March 31, 2009, after taking into account the bank indebtedness drawn of $131,287 (December 31, 2008 - $112,934) and the outstanding letters of credit and other items, is $117,051 (December 31, 2008 - $125,536). The Canadian dollar bank indebtedness bears interest at rates approximating the prime rate of a Canadian chartered bank. At March 31, 2009, the Canadian prime interest rate was 2.5% (December 31, 2008 – 3.5%) per annum.

The REIT may increase the general operating facility to a maximum amount of $300,000 upon providing further properties as security.

Included in bank indebtedness at March 31, 2009 is U.S. $204 (December 31, 2008 – U.S. $7,600). The Canadian equivalents of these amounts are $257 (December 31, 2008 - $9,272). The U.S. dollar bank indebtedness bears interest at LIBOR rates.

(b) A facility to finance and construct a distribution centre in Ajax, Ontario totalling $3,722 (December 31, 2008 - $3,722). The REIT has outstanding letters of credit of $3,722 (December 31, 2008 - $3,722) on this facility. The facility is due on demand.

(In thousands of dollars, except unit and per unit amounts)

9. Non-controlling interest:

Non-controlling interest represents the amount of equity related to the Class B units of a subsidiary partnership, H&R Portfolio Limited Partnership ("HRLP"), issued to participating vendors in exchange for properties acquired by HRLP. The accounts of HRLP are consolidated into the REIT, and thus included in the combined financial statements. Class B units of HRLP are only exchangeable on a one-for-one basis, at the option of the holder, into Stapled Units which have already been issued to HRLP. During the year ended December 31, 2008, 1,536,990 Class B units of HRLP were exchanged into Stapled Units. The conversion of these units was accounted for as a transfer of the carrying value recorded in non-controlling interest to unitholders' equity.

Holders of the Class B units of HRLP are entitled to receive distributions on a per unit amount equal to a per Stapled Unit amount provided to holders of Stapled Units. To fund the distributions to Class B units, HRLP holds 5,437,565 Stapled Units at March 31, 2009 (December 31, 2008 - 5,437,565).

The details of the non-controlling interest are as follows:

	Amount	Number of units
As at December 31, 2007	$ 103,211	6,974,555
Adjustment to comply with new accounting standards (note 2)	(430)	-
As at January 1, 2008	$ 102,781	6,974,555
Non-controlling interest from continuing operations	1,241	-
Non-controlling interest from discontinued operations (note 21)	917	-
Distributions on Class B units of HRLP	(2,511)	-
As at March 31, 2008	$ 102,428	6,974,555
Non-controlling interest from continuing operations	(1,155)	-
Non-controlling interest from discontinued operations	2,826	-
Distributions on Class B units of HRLP	(6,987)	-
Exchange of Class B units of HRLP for Stapled Units	(21,745)	(1,536,990)
As at December 31, 2008	$ 75,367	5,437,565
Non-controlling interest from continuing operations	**353**	-
Non-controlling interest from discontinued operations (note 21)	**54**	**-**
Distributions on Class B units of HRLP	**(979)**	**-**
As at March 31, 2009	**$ 74,795**	**5,437,565**

10. Unitholders' equity:

The REIT is an unincorporated open-ended trust. The beneficial interests in the REIT are represented by a single class of units which are unlimited in number. Each unit carries a single vote at any meeting of unitholders and carries the right to participate pro rata in any distributions.

Finance Trust is an unincorporated investment trust. The beneficial interests in Finance Trust are represented by a single class of units which are unlimited in number. Each unit carries a single vote at any meeting of unitholders and carries the right to participate pro rata in any distributions.

The units of the REIT are stapled with the units of Finance Trust effective October 1, 2008. These Stapled Units are listed and posted for trading on the TSX. The REIT and Finance Trust entered into a support agreement ("Support Agreement") to coordinate the issuance of Stapled Units under various arrangements (note 10(b)).

The units of the Trusts are freely transferable and, other than as disclosed herein, the trustees of the REIT and Finance Trust shall not impose any restriction on the transfer of units. Provided that an event of uncoupling ("Event of Uncoupling") has not occurred: (a) each REIT unit may be transferred only together with a unit of Finance Trust; (b) no unit may be issued by the REIT to any person unless: (i) a unit of Finance Trust is simultaneously issued to such person, or (ii) the REIT has arranged that units will be consolidated (subject to any applicable regulatory approval) immediately after such issuance, such that each holder of a REIT unit will hold an equal number of Finance Trust units and units of the REIT immediately following such consolidation; and (c) a unitholder may require the REIT to redeem any particular number of units only if it also requires, at the same time, and in accordance with the provisions of the Finance Trust Declaration of Trust, Finance Trust to redeem that same number of units of Finance Trust. Equivalent provisions apply with respect to the transfer, issuance, consolidation and redemption of Finance Trust units.

An Event of Uncoupling shall occur only: (a) in the event that unitholders of the REIT vote in favour of the uncoupling of units of the Trusts such that the two securities will trade separately; or (b) at the sole discretion of the trustees of Finance Trust, but only in the event of the bankruptcy, insolvency, winding-up or reorganization (under an applicable law relating to insolvency) of the REIT or U.S. Holdco or the taking of corporate action by the REIT or U.S. Holdco in furtherance of any such action or the admitting in writing by the REIT or U.S. Holdco of its inability to pay its debts generally as they become due. The trustees of the REIT and Finance Trust shall use all reasonable efforts to obtain and maintain a listing for the units of their respective Trusts and, unless an Event of Uncoupling has occurred, the Stapled Units, on one or more stock exchanges in Canada.

The unitholders have the right to require the Trusts to redeem their units on demand. Provided that no Event of Uncoupling has occurred, unitholders who tender their units of one of the Trusts for redemption will also be required to tender for redemption corresponding units of the other Trust in accordance with the provisions of the respective Declarations of Trust. Upon the tender of their units for redemption, all of the unitholder's rights to and under such units are surrendered and the unitholder is entitled to receive a price per unit as determined by the applicable Declaration of Trust. Upon valid tender for redemption of each unit of the REIT the unitholder is entitled to receive a price per unit of the REIT as determined by a formula based on the market price of Stapled Units less an amount based on the principal amount of U.S. Holdco Notes per outstanding unit of Finance Trust. The redemption price payable by the REIT will be satisfied by way of a cash payment to the unitholder or, in certain circumstances, including where such payment would cause the REIT's monthly cash redemption obligations to exceed $50 (subject to adjustment in certain circumstances, or waiver by the trustees), an in specie distribution of notes of H&R Portfolio LP Trust (a subsidiary of the REIT). Upon valid tender of each unit of Finance Trust the unitholder is entitled to receive, except as provided below, a price per unit payable in cash equal to the Canadian dollar equivalent of the outstanding principal amount of the U.S. Holdco Notes as of the redemption date, divided by the total number of Finance Trust units issued and outstanding immediately prior to the redemption date. In certain circumstances, including where such payment would cause Finance Trust's monthly cash redemption obligations to exceed $50 (subject to adjustment in certain circumstances or waiver by the trustees) the redemption price per Finance Trust unit being redeemed, to which a redeeming unitholder is entitled shall be the fair market value of the Finance Trust unit being redeemed, as determined by the trustees, which shall be payable by way of delivery of U.S. Holdco Notes.

(In thousands of dollars, except unit and per unit amounts)

The following number of REIT units and following October 1, 2008 Stapled Units are issued and outstanding:

As at December 31, 2007	135,449,995
Issued under the Distribution Reinvestment Plan and Unit Purchase Plan (the "DRIP")	629,013
	136,079,008
Units held by a subsidiary (note 9)	(6,974,555)
As at March 31, 2008	129,104,453
As at March 31, 2008	136,079,008
Issued on June 6, 2008 (at a price of $19.75 per unit)	8,734,250
Issued under the DRIP	2,219,593
	147,032,851
Units held by a subsidiary (note 9)	(5,437,565)
As at December 31, 2008	141,595,286
As at December 31, 2008	147,032,851
Issued under the DRIP	668,617
Units held by a subsidiary (note 9)	(5,437,565)
As at March 31, 2009	142,263,903

(a) Distributions:

Under the REIT's Declaration of Trust, subject to the discretion of the trustees in certain circumstances, the REIT is required to distribute not less than 80% of Distributable Cash of the REIT (as defined in the Declaration of Trust). The REIT should also distribute such portion of the net realized capital gains and net recapture income as determined by the trustees in their discretion. Distributable Cash, in accordance with the Declaration of Trust, represents consolidated net income of the REIT as determined in accordance with Canadian GAAP adjusted to add back and deduct certain specified amounts and to make any other adjustments determined by the trustees at their discretion. The REIT is required under the Declaration of Trust to distribute annually an amount equal to any excess of income of the REIT for tax purposes over distributions otherwise made for the year. For the three months ended March 31, 2009, the REIT declared per unit distributions of $0.153 (March 31, 2008 - $0.360).

Pursuant to Finance Trust's Declaration of Trust, unitholders of Finance Trust are entitled to receive all of the Distributable Cash of Finance Trust, as defined in the Declaration of Trust. Distributable Cash means, subject to certain exceptions, all amounts received by Finance Trust less certain costs, expenses or other amounts payable by Finance Trust, and less any amounts which, in the opinion of the trustees, may reasonably be considered to be necessary to provide for the payment of any costs or expenditures that have been or will be incurred in the activities and operations of Finance Trust and to provide for payment of any tax liability of Finance Trust. For the period ended March 31, 2009, Finance Trust paid per unit distributions of $0.027.

(b) Support Agreement:

Pursuant to the provision of the Declarations of Trust for Finance Trust and the REIT, at all times, each REIT unit must be stapled to a Finance Trust unit (and each Finance Trust unit must be stapled to a REIT unit) unless there is an Event of Uncoupling. As part of the Plan of Arrangement, the REIT and Finance Trust entered into the Support Agreement which provided, among other things, for the co-ordination of the declaration and payment of all distributions so as to provide for simultaneous record dates and payment dates; for co-ordination so as to permit the REIT to perform its obligations pursuant to the REIT's Declaration of Trust, Unit Option Plan, DRIP and Unitholder Rights Plan; for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable and permit the REIT to perform its obligations arising under any security issued by the REIT (including securities convertible, exercisable or exchangeable into Stapled Units); for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable the REIT to perform its obligations or exercise its rights under its convertible debentures; and for Finance Trust to take all such actions and do all such things as are necessary or desirable to issue Finance Trust units simultaneously (or as close to simultaneously as possible) with the issue of REIT units and to otherwise ensure at all times that each holder of a particular number of REIT units holds an equal number of Finance Trust units, including participating in and cooperating with any public or private distribution of Stapled Units by, among other things, signing prospectuses or other offering documents.

In the event that the REIT issues additional REIT units, pursuant to the Support Agreement, the REIT and Finance Trust will coordinate so as to ensure that each subscriber receives both REIT units and Finance Trust units, which shall trade together as Stapled Units. Prior to such event, the REIT shall provide notice to Finance Trust to cause Finance Trust to issue and deliver the requisite number of Finance Trust units to be received by and issued to, or to the order of, each subscriber as the REIT directs. In consideration of the issuance and delivery of each such Finance Trust unit, the REIT (on behalf of the purchaser) or the purchaser, as the case may be, shall pay (or arrange for the payment of) a purchase price equal to the fair market value (as determined by Finance Trust in consultation with the REIT) of each such Finance Trust unit at the time of such issuance. The remainder of the subscription price for Stapled Units shall be allocated to the issuance of REIT units by the REIT.

(In thousands of dollars, except unit and per unit amounts)

11. Accumulated other comprehensive loss:

Accumulated other comprehensive loss on:	**Cash flow hedges**	**Translation of foreign operations**	**Total**
Balance as at December 31, 2007	$ (6,419)	$ (78,791)	$ (85,210)
Loss on derivatives designated as cash flow hedges	(3,372)	-	(3,372)
Transfer of realized loss on cash flow hedges to net earnings	103	-	103
Future income taxes (note 23)	(647)	-	(647)
Unrealized gain on translation of self sustaining foreign operation	-	11,735	11,735
Balance as at March 31, 2008	(10,335)	(67,056)	(77,391)
Loss on derivatives designated as cash flow hedges	1,595	-	1,595
Transfer of realized loss on cash flow hedges to net earnings	435	-	435
Future income taxes	35	-	35
Unrealized gain on translation of self sustaining foreign operation	-	28,780	28,780
Transfer of realized loss on foreign exchange to net earnings	-	27,341	27,341
Balance as at December 31, 2008	(8,270)	(10,935)	(19,205)
Transfer of realized loss on cash flow hedges to net earnings	**176**	**-**	**176**
Future income taxes (note 23)	**(60)**	**-**	**(60)**
Unrealized gain on translation of self sustaining foreign operation	**-**	**4,428**	**4,428**
Balance as at March 31, 2009	**$ (8,154)**	**$ (6,507)**	**$ (14,661)**

12. Rentals from income properties:

	Three months ended March 31 **2009**	2008
Rentals from income properties	**$ 155,260**	$ 143,419
Straight-lining of contractual rent	**3,729**	4,185
Rent amortization of above- and below-market rents	**(300)**	185
Rent amortization of tenant inducements	**(537)**	(490)
	$ 158,152	$ 147,299

(In thousands of dollars, except unit and per unit amounts)

13. Interest:

	Three months ended March 31 **2009**	2008
Interest on mortgages payable	**$ 47,722**	$ 45,366
Interest on convertible debentures	**2,324**	-
Amortization of mortgage premium	**(412)**	(432)
Bank interest and charges	**1,496**	1,679
	51,130	46,613
Capitalized interest	**(6,599)**	(3,827)
	$ 44,531	$ 42,786

14. Depreciation and amortization:

	Three months ended March 31 **2009**	2008 (note 2)
Depreciation of income properties	**$ 24,542**	$ 22,474
Amortization of deferred leasing expenses	**1,396**	1,098
Amortization of intangible assets on acquisitions	**6,415**	6,291
	$ 32,353	$ 29,863

(In thousands of dollars, except unit and per unit amounts)

15. Net earnings per unit:

	Three months ended March 31 **2009**	2008 (note 2)
Net earnings	**$ 22,098**	$ 39,613
Add net earnings attributable to non-controlling interest (note 9)	**407**	2,158
Diluted net earnings	**$ 22,505**	$ 41,771
The weighted average number of units outstanding was as follows:		
Basic units	**142,058,524**	128,692,416
Effect of dilutive securities:		
Unit option plan	**-**	630,849
Non-controlling interest conversion to units (note 9)	**5,437,565**	6,974,555
Diluted units	**147,496,089**	136,297,820
Net earnings per unit:		
Basic	**$ 0.16**	$ 0.31
Diluted	**$ 0.15**	$ 0.31

The unit option plan and convertible debentures are anti-dilutive for the three months ended March 31, 2009; therefore, the potential conversion into Stapled Units has not been included in the calculation of diluted units.

16. Change in other non-cash operating items:

	Three months ended March 31 **2009**	2008
Deferred leasing expenses	**$ (1,627)**	$ (1,225)
Accrued rent receivable	**(4,517)**	(4,800)
Tenant inducements	**11**	(155)
Prepaid expenses and sundry assets	**(2,007)**	7,442
Accounts receivable	**500**	(252)
Accounts payable and accrued liabilities	**12,414**	10,039
	$ 4,774	$ 11,049

17. Capital risk management:

The REIT's primary objectives when managing capital are:

(a) to provide unitholders with stable and growing cash distributions, generated by revenue it derives from investments in income-producing real estate properties; and

(b) to maximize unit value through the ongoing active management of the REIT's assets, the acquisition of additional properties and the development and construction of projects which are pre-leased to creditworthy tenants.

The REIT considers its capital to be its unitholders' equity, non-controlling interest, mortgages payable, convertible debentures and bank indebtedness. As long as the REIT complies with its investment and debt restrictions set out in its Declaration of Trust, it is then free to determine the appropriate level of capital in context with its cash flow requirements, overall business risks and potential business opportunities. As a result of this, the REIT will make adjustments to its capital based on its investment strategies and changes in economic conditions.

Finance Trust's primary objective when managing capital is to provide unitholders with a cash distribution from the interest income it earns on its notes receivable. Finance Trust manages its capital by adhering to the investment restrictions outlined in its Declaration of Trust.

The REIT's level of indebtedness is subject to the limitations set out in its Declaration of Trust. The REIT is limited to a total indebtedness to gross book value ratio of 65% (excluding the indebtedness incurred in connection with Bow development, convertible debentures and U.S. Holdco notes payable to Finance Trust). As at March 31, 2009 this ratio was 54.2% (December 31, 2008 – 54.7%). Management uses this ratio as a key indicator in managing the REIT's capital.

In addition to the above key ratio, the REIT's general operating facility (note 8(a)) has the following covenants which are required to be calculated on a combined basis of the REIT's and Finance Trust's financial statements:

(a) a minimum debt to service coverage ratio of 1.2. As at March 31, 2009, the actual debt to service coverage ratio was 1.44 (December 31, 2008 – 1.35);

(b) the indebtedness of the income properties pledged as security cannot exceed 67% of the fair market value. The REIT is in compliance with this covenant as at March 31, 2009 and December 31, 2008; and

(c) the unitholders' equity and non-controlling interest must exceed $1,300,000. The REIT is in compliance with this covenant as at March 31, 2009 and December 31, 2008.

The REIT's mortgage providers also have minimum limits on debt to service coverage ratios ranging from 1.10 to 1.50 as at March 31, 2009 and December 31, 2008. The REIT monitors these ratios and is in compliance with such external requirements.

18. Risk management:

Credit risk:

The REIT is exposed to credit risk as an owner of income properties in that tenants may experience financial difficulty and be unable to fulfill their lease commitment or the failure of tenants to occupy and pay rent in accordance with existing lease agreements. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on significant tenants. Management has diversified the REIT's holdings so that it owns several categories of properties and acquires income properties throughout Canada and the United States. In addition, management ensures that no tenant or related group of tenants, other than investment grade tenants, account for a significant portion of the REIT's cash flow. The only tenants which account for more than 5% of the rental income from income properties are Bell Canada, TransCanada PipeLines Limited, Telus Communications and Bell Mobility. Each of these companies that have a public debt rating is rated with at least a BBB rating by a recognized rating agency.

The REIT is also exposed to credit risk as a lender of mezzanine financing in the event that a borrower is unable to make the contracted payments. Such risk is mitigated through credit checks and related due diligence of the borrowers and through careful evaluation of the worth of the underlying assets held as security. Risk is further mitigated by the REIT's investment guidelines which generally allows for the provision of construction financing only after 70% of the project has been pre-leased.

Liquidity risk:

The REIT is subject to liquidity risk on its mortgages payable, convertible debentures and bank indebtedness whereby it may not be able to refinance or pay its debt obligations when they become due.

The recent turmoil in the global markets has brought about a strong focus on liquidity as the capital markets have undergone dramatic change. Sources of funds are scarce and lenders are expected to become more conservative with their loans in the near future.

Management's strategy to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when they come due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the REIT's reputation. In order to meet this strategy, the REIT strives to enter into long-term leases with credit worthy tenants which assists in the REIT's primary strategy of maintaining predictable cash flows. The REIT attempts to appropriately structure the term of mortgages to closely match the term of leases. This strategy enables the REIT to meet its contractual monthly mortgage obligations. Due to the long-term length of most of the REIT's mortgages, a significant amount of principal is usually prepaid by the time the mortgages mature.

The contractual obligations for mortgages payable is disclosed in note 6. The REIT also has contractual obligations for convertible debentures of $115,000 maturing in 2013 as described in note 7.

As described in note 25, the agreements and indentures governing indebtedness of the REIT, as entered into subsequent to March 31, 2009, contain certain covenants that, among other things, require the REIT to maintain certain financial ratios and thresholds and impose on the REIT certain restrictions (subject in each case to exceptions) regarding: the disposition of The Bow project, lands related to The Bow, or any other properties or assets in excess of certain thresholds; the creation of liens or granting of negative pledges; creation or incurrence of debt; the making of distributions; the purchase or redemption of securities; the entering into of any merger or similar transaction with any person; changes of a fundamental nature (including senior management, business objectives, purposes or operations, capital structure, constating documents, and subordinated debt); the cancellation or waiver of material contracts; the making of any investment in excess of certain thresholds; the repayment or repurchase of any subordinated indebtedness; the involvement of other real estate development or construction projects in excess of certain thresholds; and changes to The Bow project budget. As a result, the REIT is limited by such covenants and restrictions.

Management measures its liquidity risk through review of financial covenants contained in debt agreements and in accordance with the Declaration of Trust. In order to maintain liquidity, the REIT has a credit facility due August 15, 2009 available to draw on to fund its obligations (note 8).

Market risk:

The REIT is subject to currency and interest rate risk. The REIT's objective is to manage and control market risk exposure within acceptable parameters, while optimizing the return on risk.

a) *Currency risk:*

A portion of the REIT's properties are located in the United States, and therefore, the REIT is subject to foreign currency fluctuations that may impact its financial position and results. In order to mitigate the risk, the REIT's debt on these properties is also held in U.S. dollars to act as a natural hedge.

A 10 cent weakening of the U.S. dollar against the average Canadian dollar exchange rate of $1.25 for the three months ended March 31, 2009 would have decreased other comprehensive income by approximately $11,100 (March 31, 2008 - $29,000) and increased net earnings by approximately $800 (March 31, 2008 - $250). This analysis assumes that all the variables, in particular interest rates, remain constant (a 10 cent weakening of the Canadian dollar against the above currencies at March 31, 2009 would have had the equal but opposite effect).

b) *Interest rate risk:*

The REIT is exposed to interest rate risk on its borrowings. It minimizes this risk by obtaining long-term fixed interest rate debt. At March 31, 2009, the percentage of fixed rate debt to total debt was 96.1% (December 31, 2008 – 96.7%). As at March 31, 2009, the REIT does not account for any of its fixed rate financial liabilities as held for trading. Therefore, a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments.

The bank indebtedness is subject to variable interest rates. An increase in interest rates of 100 basis points for the three months ended March 31, 2009 would have decreased net earnings by approximately $305 (March 31, 2008 - $630). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

19. Related party transactions:

H&R Property Management Ltd. (the "Property Manager"), a company owned by family members of the Chief Executive Officer, provides property management services for substantially all properties owned by the REIT, including leasing services, for a fee of 2% of gross revenue. The Property Manager also provides support services in connection with the acquisition, disposition and development activities of the REIT and is also entitled to an incentive fee. Acquisitions and development support services are provided for a fee of 2/3 of 1% of total acquisition and development costs, as defined in the agreement and effective January 1, 2007. Effective January 1, 2008, the support services relating to dispositions of income properties are provided for a fee of 10% of the gain on sale of income properties adjusted for the add back of accumulated depreciation and amortization. The current agreement expires on January 1, 2010 with two automatic five-year extensions.

During the three months ended March 31, 2009, the REIT recorded fees pursuant to this agreement of $3,539 (March 31, 2008 - $4,015), of which nil (March 31, 2008 - $514) was capitalized to the cost of the income properties acquired, $488 (March 31, 2008 - $587) was capitalized to properties under development and $857 (March 31, 2008 - $483) was capitalized to deferred leasing expenses. The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the three months ended March 31, 2009, a further amount of $1,200 (March 31, 2008 - $2,199) has been earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager. Of this amount, $1,200 (March 31, 2008 – nil) has been waived by the Property Manager and nil (March 31, 2008 - $2,199) has been expensed in the combined statement of earnings. The waiving of the incentive fee by the Property Manager is effective for the entire 2009 fiscal year.

Pursuant to the above agreements, as at March 31, 2009, $1,441 (December 31, 2008 - $1,022) was payable to the Property Manager.

The REIT leases space to companies affiliated with the Property Manager. The rental income earned for the three months ended March 31, 2009 is $301 (March 31, 2008 - $285).

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(In thousands of dollars, except unit and per unit amounts)

20. Segmented disclosures:

Segmented information on identifiable assets by geographic region and property operating income is as follows:

Capital assets are attributed to countries based on the location of the properties.

Income properties and properties under development	**March 31 2009**	December 31 2008
Canada	**$ 3,803,539**	$ 3,772,515
United States	**1,374,045**	1,363,315
	$ 5,177,584	$ 5,135,830

Net property operating income for the three months ended March 31, 2009	**Canada**	**United States**	**Total**
Operating revenue	**$ 129,647**	**$ 30,329**	**$ 159,976**
Property operating costs	**(47,074)**	**(5,185)**	**(52,259)**
Mortgage and other interest expense	**(28,568)**	**(15,963)**	**(44,531)**
Depreciation and amortization	**(23,108)**	**(9,245)**	**(32,353)**
Net property operating income	**$ 30,897**	**$ (64)**	**$ 30,833**

Net property operating income for the three months ended March 31, 2008 (note 2)	Canada	United States	Total
Operating revenue	$ 121,161	$ 26,734	$ 147,895
Property operating costs	(43,413)	(3,973)	(47,386)
Mortgage and other interest expense	(30,203)	(12,583)	(42,786)
Depreciation and amortization	(22,116)	(7,747)	(29,863)
Net property operating income	$ 25,429	$ 2,431	$ 27,860

(In thousands of dollars, except unit and per unit amounts)

21. Net earnings from discontinued operations:

The REIT sold two properties in the first three months of 2009. As at March 31, 2009, two income properties met the held-for-sale criteria and as a result are reported in discontinued operations. For the year ended December 31, 2008, there were 16 properties sold. The results of operations from these properties have been separately disclosed below.

	Three Months Ended March 31	
Net earnings from discontinued operations	**2009**	2008
		(note 2)
Operating revenue:		
Rentals from income properties	**$ 3,674**	$ 9,097
Straight-lining of contractual rent	**292**	23
Rent amortization of above- and below-market rents	**-**	(9)
Rent amortization of tenant inducements	**(92)**	-
	3,874	9,111
Mortgage interest and other income	**1**	1
	3,875	9,112
Operating expenses:		
Property operating costs	**644**	3,367
Mortgage interest	**1,374**	2,042
Amortization of mortgage premium	**(37)**	(45)
Bank interest and charges	**1**	-
Depreciation and amortization	**860**	355
	2,842	5,719
Net property operating income	**1,033**	3,393
Income taxes	**-**	-
Gain on sale of income properties	**424**	14,407
Non-controlling interest (note 9)	**(54)**	(917)
Net earnings from discontinued operations	**$ 1,403**	$ 16,883

22. Commitments and contingencies:

(a) The REIT is currently undertaking significant development activities for the two million square foot office building in Calgary, Alberta (the “Bow”), which is fully pre-leased to EnCana Corporation for a 25-year term. The REIT has committed to incurring additional construction and development costs for this project of approximately $1,088,000 over a four-year period, of which approximately $345,000 is expected to be incurred during the next nine months. As at March 31, 2009, the total cost incurred on the project amounted to $458,943. This budget includes the construction of 1,361 parking stalls below both the North and South blocks. Construction commenced in the spring of 2007 and is planned to be completed in 2012 to meet the completion timetable. In certain circumstances, should the delivery of tranches of space within the project be delayed, the

(In thousands of dollars, except unit and per unit amounts)

REIT will be liable to the tenant for certain delay costs which may be significant. The current difficult economic conditions impacted the REIT's financing strategy; however, the REIT was able to arrange two financing facilities subsequent to March 31, 2009 (note 25).

(b) In the normal course of operations, the REIT has issued letters of credit in connection with financings, operations and acquisitions. As at March 31, 2009, the REIT has outstanding letters of credit totalling $51,951 (December 31, 2008 - $51,791), including $22,578 (December 31, 2008 - $22,566) which has been pledged as security for certain mortgages payable. These letters of credit are secured in the same manner as the bank indebtedness (note 8).

(c) At March 31, 2009, the REIT had issued guarantees amounting to $51,070 (December 31, 2008 - $51,340) which expire between 2011 and 2017 and no amount had been provided for in the combined interim financial statements for these items. These amounts arise where the REIT has guaranteed a co-owner's share of the mortgage liability. The REIT has recourse to the co-owner's share of the assets in the event the guarantees are called upon.

(d) The REIT is involved in litigation and claims in relation to the income properties that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on the combined interim financial statements.

23. Income taxes:

Income tax expense consists of the following:

	Three Months Ended March 31 **2009**	2008
Income tax expense included in the determination of net earnings from continuing operations:		
Current	**$ 73**	$ 611
Future	**4,515**	1,783
	4,588	2,394
Future income taxes included in the determination of other comprehensive income	**60**	647
	$ 4,648	$ 3,041

24. Comparative figures:

Certain 2008 comparative figures have been reclassified to conform with the presentation adopted in 2009.

25. Subsequent events:

a) On April 23, 2009, the REIT closed a $425,000, 42-month construction financing facility ("Credit Agreement") with a syndicate of various Canadian financial institutions for the REIT's development project of the Bow. The ability of the REIT to draw upon the Credit Agreement is subject to the satisfaction of certain conditions including without limitation (i) not less than $906,000 of cash equity having been invested in the borrower and the project by the REIT or any affiliate thereof; (ii) execution of an acceptable management agreement with the REIT for the project; (iii) the REIT having in place a committed revolving credit facility of not less than $300,000 (subject to reduction to $200,000 in certain circumstances), and (iv) initial borrowings under the Credit Agreement having occurred prior to December 31, 2010 or such later mutually-agreeable date. These conditions have not yet been met. The REIT entered into an interest rate swap that should limit its interest rate exposure during the term of this Credit Agreement to an annual effective interest rate, including the cost of the swap, of 6.90%.

b) On April 24, 2009, Fairfax Financial Holdings Limited ("Fairfax") and its subsidiaries purchased $200,000 of debentures bearing interest at a rate of 11.5% maturing on April 14, 2014 (the "Fairfax Debentures") and acquired warrants to purchase up to 28,571,429 Stapled Units at an exercise price of $7.00 per Stapled Unit. Such warrants are exercisable until April 24, 2014. The Fairfax Debentures mature on April 24, 2014. The Fairfax Debentures are not redeemable on or before April 24, 2013, except upon the satisfaction of certain conditions upon the occurrence of a change of control. After April 24, 2013 and prior to the maturity date thereof, the Fairfax Debentures are redeemable in whole or in part at the option of the REIT at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. The Fairfax Debentures are subordinated to the senior indebtedness of the REIT, but will rank pari passu with all other unsecured indebtedness of the REIT and for greater certainty, no unsecured indebtedness shall rank prior to the Fairfax Debentures. Upon a change of control, the holders of the Fairfax Debentures have the right to require the REIT to purchase the Fairfax Debentures at 101% of the principal amount plus accrued and unpaid interest. The Fairfax Debenture indenture contains similar covenants, events of defaults and remedies as the trust indenture governing the REIT's outstanding convertible debentures and also provides that subject to certain exceptions, the REIT will not change its 65% maximum limit for the total indebtedness to gross book value ratio of the REIT without the consent of the holders of the Fairfax Debentures, that a default under the Bow construction facility is an event of default under the Fairfax Debentures, and that the REIT will not extend the maturity date of any amount owing under the Bow construction facility unless it otherwise satisfies any stipulated condition under the Fairfax Debenture indenture.

c) In May 2009, the REIT secured a mortgage commitment for the third phase of the Bell Canada project in Mississauga, ON. The mortgage, which is expected to be funded in July 2009, subject to certain conditions, is for a principal amount of $85,000 bearing interest at 6.5% per annum. The mortgage will have a 5-year term.

COMBINED MANAGEMENT'S DISCUSSION AND ANALYSIS OF H&R REAL ESTATE INVESTMENT TRUST AND H&R FINANCE TRUST

For the Three Months ended March 31, 2009

Dated: May 14, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

TABLE OF CONTENTS

SECTION I

FORWARD-LOOKING DISCLAIMER

Management's discussion and analysis ("MD&A") of the combined financial position and the consolidated results of operations of H&R Real Estate Investment Trust (the "REIT") and H&R Finance Trust ("Finance Trust" and collectively with the REIT, "Trusts") for the three months ended March 31, 2009 should be read in conjunction with the Trusts combined financial statements and the notes thereto for the years ended December 31, 2008 and 2007. Historical results, including trends which might appear, should not be taken as indicative of future operations or results. Certain prior period items have been reclassified to conform with the presentation adopted in the current period.

Certain information in this MD&A contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, among others, statements made or implied under the headings "Results of Operations", "Liquidity and Capital Resources", "Outlook" and "Risks and Uncertainties" relating to the Trusts' objectives, strategies to achieve those objectives, the Trusts' beliefs, plans, estimates, projections and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts including, in particular, the REIT's expectation regarding future development in connection with the Bow. Forward-looking statements generally can be identified by words such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans", "project", "budget" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect the Trusts' current beliefs and are based on information currently available to management.

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements are not guarantees of future performance and are based on the Trusts' estimates and assumptions that are subject to risks and uncertainties, including those described below under "Risks and Uncertainties" and those discussed in the Trusts' materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results and performance of the Trusts to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include, among other things, risks related to: Unit prices; availability of cash for distributions; development and financing relating to the Bow development; restrictions pursuant to the terms of indebtedness ; liquidity; credit risk and tenant concentration; interest rate and other debt related risk; tax risk; ability to access capital markets; dilution; lease rollover risk; construction risks; currency risk; unitholder liability; co-ownership interest in properties; mezzanine financing credit risk; competition for real property investments; environmental matters; reliance on one corporation for management of substantially all the REIT's properties; changes in legislation and indebtedness of the Trusts. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that the general economy is stable; local real estate conditions are stable; interest rates are relatively stable; and equity and debt markets continue to provide access to capital. The Trusts' caution that this list of factors is not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what the Trusts believe are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

Furthermore, readers are also urged to examine the REIT's and Finance Trust's materials filed with the Canadian securities regulatory authorities from time to time as they may contain discussions on risks and uncertainties which could cause the actual results and performance of the REIT and Finance Trust to differ materially from the forward-looking statements contained in this MD&A. Neither Finance Trust nor any of its trustees or officers, assumes any responsibility for the completeness of the information contained in the REIT's materials filed with the Canadian securities regulatory authorities or for any failure of the REIT or its trustees or officers to disclose events or facts which may have occurred or which may affect the significance or accuracy of any such information. Neither the REIT nor any of its trustees or officers, assumes any responsibility for the completeness of the information contained in Finance Trust's materials filed with the Canadian securities regulatory authorities or for any failure of Finance Trust or its trustees or officers to disclose events or facts which may have occurred or which may affect the significance or accuracy of any such information.

All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements are made as of May 14, 2009 and the Trusts, except as required by applicable law, assume no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances. All information for the three months ended March 31, 2009 and 2008 is unaudited.

NON-GAAP FINANCIAL MEASURES

Same-asset property operating income, basic and diluted distributable cash ("DC"), funds from operations ("FFO"), adjusted funds from operations ("AFFO") and Gross Book Value ("GBV") are all supplemental financial measures used by management to track the Trusts' financial performance. Such measures are not recognized under Canadian generally accepted accounting principles ("GAAP") and therefore do not have standardized meanings prescribed by GAAP. Management believes that these non-GAAP financial measures are a meaningful measure of operating performance as they reject the assumption that the value of real estate investments diminishes predictably over time, and they adjust for items included in GAAP net earnings that may not necessarily be the best determinants of the Trusts' operating performance, such as gains or losses on the sale of, and provisions for impairment against long-lived, income properties. These non-GAAP financial measures should not be construed as alternatives to comparable financial measures calculated in accordance with GAAP. Further, the Trusts' method of calculating such supplemental financial measures may differ from the methods of other real estate investment trusts or other issuers and accordingly, such supplemental financial measures used by management may not be comparable to similar measures presented by other real estate investment trusts or other issuers.

OVERVIEW

The REIT is an unincorporated open-ended trust created by a Declaration of Trust and governed by the laws of the Province of Ontario. Unitholders are entitled to have their Units comprising part of the Stapled Units (as defined below), redeemed at any time on demand payable in cash (subject to monthly limits) and/or *in specie*, provided that the corresponding Finance Trust units are being contemporaneously redeemed. Finance Trust is an unincorporated investment trust. Finance Trust was established pursuant to a Plan of Arrangement (the "Plan of Arrangement") on October 1, 2008 as an open-ended limited purpose unit trust pursuant to its Declaration of Trust. Each issued and outstanding Finance Trust unit is "stapled" to a unit of the REIT on a one-for-one basis such that Finance Trust units and the REIT units trade together as stapled units ("Stapled Units"), and such Stapled Units are listed and posted for trading on the Toronto Stock Exchange ("TSX"). Apart from provisions necessary to achieve such stapling, each the REIT unit and Finance Trust unit retains its own separate identity and is separately listed (but not posted for trading) on the TSX (unless there is an event of uncoupling, in which case Finance Trust units will cease to be listed on the TSX).

The REIT has two primary objectives:

- to provide Unitholders with stable and growing cash distributions, generated by the revenue it derives from investments in income producing real estate properties; and

- to maximize unit value through ongoing active management of the REIT's assets, acquisition of additional properties and the development and construction of projects which are pre-leased to creditworthy tenants.

The REIT's strategy to accomplish these two objectives is to accumulate a diversified portfolio of high quality office, industrial and retail properties in Canada and the United States occupied by creditworthy tenants on a long-term basis.

The primary purpose of Finance Trust is to be a flow-through vehicle to allow the REIT to indirectly access the capital markets in a tax-efficient manner by indirectly borrowing money from the REIT's unitholders. Finance Trust's primary activity will be to hold debt issued by U.S. Holdco. Subject to cash flow requirements, Finance Trust intends to distribute to its unitholders, who are also unitholders of the REIT, all of its cash flow, consisting primarily of interest paid by U.S. Holdco, less administrative and other expenses and amounts to satisfy liabilities.

Mechanics of "Stapling" the Units of Finance Trust and the REIT

Pursuant to the provisions of the Declarations of Trust for Finance Trust and the REIT at all times each the REIT unit must be ''stapled'' to a Finance Trust unit (and each Finance Trust unit must be ''stapled'' to a REIT unit) unless there is an "event of uncoupling" (as described below). As part of the Plan of Arrangement, as described in the REIT's information circular dated August 20, 2008, the REIT and Finance Trust entered into a support agreement (the "Support Agreement") which provided, among other things, for the co-ordination of the declaration and payment of all distributions so as to provide for simultaneous record dates and payment dates; for co-ordination so as to permit the REIT to perform its obligations pursuant to the REIT's Declaration of Trust, Unit Option Plan, Dividend Reinvestment Plan ("DRIP") and Unitholder Rights Plan; for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable and permit the REIT to perform its obligations arising under any security issued by the REIT (including securities convertible, exercisable or exchangeable into Stapled Units); for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable the REIT to perform its obligations or exercise its rights under its convertible debentures; and for Finance Trust to take all such actions and do all such things as are necessary or desirable to issue Finance Trust units simultaneously (or as close to simultaneously as possible) with the issue of REIT units and to otherwise ensure at all times that each holder of a particular number of REIT units holds an equal number of Finance Trust units, including participating in and cooperating with any public or private distribution of Stapled Units by, among other things, executing prospectuses or other offering documents.

In the event that the REIT issues additional REIT units, pursuant to the Support Agreement, the REIT and Finance Trust will coordinate so as to ensure that each subscriber receives both REIT units and Finance Trust units, which shall trade together as Stapled Units. Prior to such event, the REIT shall provide notice to Finance Trust to cause Finance Trust to issue and deliver the requisite number of Finance Trust units to be received by and issued to, or to the order of, each subscriber as the REIT directs. In consideration of the issuance and delivery of each such Finance Trust unit, the REIT (solely as agent for and on behalf of the purchaser) or the purchaser, as the case may be, shall pay (or arrange for the payment of) a purchase price equal to the fair market value (as determined by Finance Trust in consultation with the REIT) of each such Finance Trust unit at the time of such issuance. The remainder of the subscription price for Stapled Units shall be allocated to the issuance of REIT units by the REIT. The proceeds received by Finance Trust from any such issuance shall be invested in additional notes of the same series as the U.S. Holdco Notes.

An event of uncoupling ("Event of Uncoupling") shall occur only: (a) in the event that unitholders of the REIT vote in favour of the uncoupling of units of Finance Trust and units of the REIT such that the two securities will trade separately; or (b) at the sole discretion of the trustees, but only in the event of the bankruptcy, insolvency, winding-up or reorganization (under an applicable law relating to insolvency) of the REIT or H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco") or the taking of corporate action by the REIT or U.S. Holdco in furtherance of any such action or the admitting in writing by the REIT or U.S. Holdco of its inability to pay its debts generally as they become due.

Investment Restrictions

Under Finance Trust's Declaration of Trust, the assets of Finance Trust may be invested only in:

(a) U.S. Holdco Notes; and

(b) temporary investments in cash, term deposits with a Canadian chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities, or money market instruments (including banker's acceptances) of, or guaranteed by, a Schedule 1 Canadian bank ("Cash Equivalents"), but only if each of the following conditions are satisfied: (a) if the Cash Equivalents have a maturity date, the trustees hold them until maturity; (b) the Cash Equivalents are required to fund expenses of Finance Trust, a redemption of units, or distributions to unitholders, in each case before the next distribution date; and (c) the purpose of holding the Cash Equivalents is to prevent funds from being non-productive, and not to take advantage of market fluctuations.

The Finance Trust Declaration of Trust provides that Finance Trust shall not make any investment, take any action or omit to take any action which would result in the units of Finance Trust not being considered units of a ''mutual fund trust'' for purposes of the Income Tax Act (Canada) or that would disqualify Finance Trust as a "fixed investment trust" under the Internal Revenue Code of 1986 as amended (the "Code") and the applicable regulations. In order to qualify as a ''fixed investment trust'' under the Code, Finance Trust generally may not acquire assets other than the U.S. Holdco Notes or certain investments in cash or cash equivalents.

	Three months ended March 31		
	2009	2008	Change
			%
DISTRIBUTABLE CASH PER UNIT [(1)]	**$0.423**	$0.407	(4)
CASH DISTRIBUTIONS PAID PER UNIT	**$0.180**	$0.360	(50)
CASH DISTRIBUTIONS PAID PER UNIT AS A % OF DISTRIBUTABLE CASH	**42.6%**	88.5%	(52)
FUNDS FROM OPERATIONS PER UNIT [(1)]	**$0.477**	$0.438	9
ADJUSTED FUNDS FROM OPERATIONS PER UNIT [(1)]	**$0.404**	$0.390	4

(1) Distributable cash, funds from operations and adjusted funds from operations are reconciled to cash provided by operations being the most comparable GAAP measure to these non-GAAP financial measures. See pages 17 and 29.

	March 31 2009	December 31 2008
Average remaining term to maturity of leases (years)	**11.3**	11.5
Average remaining term to maturity of mortgages (years)	**9.0**	9.3
Weighted average contractual interest rate of mortgages	**6.2%**	6.2%

The geographic diversification of the REIT's portfolio (excluding the seven Boscov's Department Stores which filed for Chapter 11 protection with a United States bankruptcy court) as at March 31, 2009 is outlined in the charts below:

NUMBER OF PROPERTIES	**Ontario** Properties	**United States** Properties	**Alberta** Properties	**Quebec** Properties	**Other** Properties	**Total** Properties
Office	23	3	4	1	4	35
Industrial	57	17	19	11	19	123
Retail	32	75	5	5	4	121
Total	112	95	28	17	27	279

(in thousands of square feet)	**Ontario** Sq.ft.	**United States** Sq.ft.	**Alberta** Sq.ft.	**Quebec** Sq.ft.	**Other** Sq.ft.	**Total** Sq.ft.
Office	5,285	304	1,406	452	884	8,331
Industrial	10,947	7,392	2,810	2,850	1,176	25,175
Retail	1,746	4,504	515	498	634	7,897
Total	17,978	12,200	4,731	3,800	2,694	41,403

	Office		**Industrial**		**Retail**		**Total**	
LEASE EXPIRIES	% of sq.ft.	Rent per sq.ft. ($) on expiry	% of sq.ft.	Rent per sq.ft. ($) on expiry	% of sq.ft.	Rent per sq.ft. ($) on expiry	% of sq.ft.	Rent per sq.ft. ($) on expiry
2009*	0.4	18.41	1.6	5.04	0.3	4.86	2.3	7.34
2010	0.6	19.70	2.3	6.25	0.3	25.23	3.2	10.55
2011	0.8	18.69	0.3	13.69	0.1	11.08	1.2	16.81
2012	0.7	17.69	2.0	5.13	0.1	21.88	2.8	8.87
2013	0.7	16.24	3.4	5.65	0.4	9.91	4.5	7.68
	3.2	18.09	9.6	5.84	1.2	13.57	14.0	9.28

* for the remainder of the year

MORTGAGES PAYABLE *	Periodic Amortized Principal ($000's)	Principal on Maturity ($000's)	Total Principal ($000's)	% of Total Principal	Weighted Average Interest Rate on Maturity
2009 **	$71,055	$39,408	$110,463	3.7%	6.1%
2010	101,915	20,590	122,505	4.1%	6.8%
2011	106,126	70,246	176,372	5.9%	6.5%
2012	105,312	285,010	390,322	13.1%	6.7%
2013(5)	101,172	102,478	203,650	6.8%	7.5%
Thereafter			1,978,776	66.4%	
			2,982,088	100%	
Mortgages payable due on demand(1)			172,729		
Mortgage payable on income property sold(2)			5,828		
Mortgage premiums(3)			10,908		
Mortgage origination costs(4)			(13,262)		
Total			$3,158,291		

* includes mortgages on income properties held for sale (based on original contractual repayment terms)
** for the balance of the year

(1) This figure includes eight non-recourse mortgages to the REIT for income properties in which the tenants (Boscov's Department Stores and Circuit City) has filed for protection under Chapter 11 of the United States Bankruptcy Code. The REIT has handed over control of seven of these income properties to the lenders and therefore expects to be released from any further obligations under these non-recourse mortgages. GAAP requires the REIT to show the full liability until such time as the lender accepts transfer of title to the properties and releases the REIT's subsidiaries from its debt obligations. As a result, the contractual amount of $172.7 million is now listed as currently due on demand.

(2) In conjunction with the sale of 10 income properties during 2008, the purchaser agreed to assume an aggregate mortgage balance of $82.6 million, and indemnify the REIT until such time that the lenders consent and release the REIT in respect of these mortgages. At March 31, 2009, the REIT has not been legally released from its mortgage obligation for the last remaining property, resulting in an outstanding original contractual balance of $5.8 million.

(3) Mortgage premiums represent the difference between the actual mortgages assumed on property acquisitions and the fair value of the mortgages at the date of purchase, less accumulated amortization and are recognized in interest over the life of the applicable mortgage.

(4) Mortgage origination costs are deducted from the REIT's mortgages payable balances and are recognized in interest over the life of the applicable mortgage.

(5) Three mortgages with a current outstanding balance of $35.4 million have a prepayment option in 2013. Should the REIT not exercise this option, the interest rate on each of these three mortgages will increase by 2% per annum for the remaining term of such mortgages which range from 2028 and 2033.

OCCUPANCY LEVELS AND AVERAGE RENT PER SQUARE FOOT	Three months ended March 31	Office	Industrial	Retail	Total*
Occupancy [(1)]	**2009**	**98.9%**	**94.3%**	**99.9%**	**96.3%**
	2008	98.8%	100.0%	99.6%	99.7%
Occupancy – same asset [(2)]	**2009**	**98.8%**	**94.1%**	**99.9%**	**96.2%**
	2008	98.9%	100.0%	99.9%	99.8%
Average rent per square foot [(3)]	**2009**	**$19.60**	**$5.79**	**$13.55**	**$10.17**
	2008	$18.98	$5.52	$9.59	$9.03

* weighted average total

(1) Excluding Boscov's Department Stores for 2008.

(2) Same asset refers to those properties owned by the REIT for the entire fifteen month period ended March 31, 2009 and excludes any assets classified as discontinued operations and Boscov's Department Stores.

(3) For continuing operations only and excluding Boscov's Department Stores.

The change in occupancy for the industrial portfolio is due to vacancies at the Circuit City industrial warehouse in Marion, IL and two other industrial properties located in the GTA.

SECTION II

RESULTS OF OPERATIONS

	Three months ended March 31		
	2009	2008	Change
(in thousands of dollars except per unit amounts)			%
Operating revenue:			
Rentals from income properties	**$158,152**	$147,299	7
Mortgage interest and other income	**1,824**	596	206
	159,976	147,895	8
Operating expenses:			
Property operating costs	**52,259**	47,386	10
Interest	**44,531**	42,786	4
Depreciation and amortization	**32,353**	29,863	8
	129,143	120,035	8
Net property operating income	**30,833**	27,860	11
Gain on foreign exchange	**4,895**	-	n/a
Impairment loss on income properties	**(8,229)**	-	n/a
Trust expenses	**(1,863)**	(1,495)	25
Net earnings before income taxes, non-controlling interest and discontinued operations	**25,636**	26,365	(3)
Income taxes	**(4,588)**	(2,394)	(92)
Net earnings before non-controlling interest and discontinued operations	**21,048**	23,971	(12)
Non-controlling interest	**(353)**	(1,241)	(72)
Net earnings from continuing operations	**20,695**	22,730	(9)
Net earnings from discontinued operations	**1,403**	16,883	(92)
Net earnings	**$22,098**	$39,613	(44)
Basic net earnings per unit			
Continuing operations	**$0.15**	$0.18	(17)
Discontinued operations	**0.01**	0.13	(92)
	$0.16	$0.31	(48)
Diluted net earnings per unit			
Continuing operations	**$0.14**	$0.18	(22)
Discontinued operations	**0.01**	0.13	(92)
	$0.15	$0.31	(52)

The changes for the three months ended March 31, 2009 are mainly due to the increased rental income from asset acquisitions, the increased interest expense, the gain on foreign exchange, impairment loss on income properties, the gains realized on disposals of income properties in net earnings from discontinued operations and the change in the foreign exchange rates between quarter 1 2009 and quarter 1 2008.

The changes to disclosure requirements that apply for the fiscal year beginning January 1, 2009 are outlined in Section IV.

Rentals from Income Properties

Rentals from income properties ("rentals") include all amounts earned from tenants related to lease agreements, including basic rent, parking income, operating cost recoveries and realty tax recoveries. Rentals from properties sold or where an asset meets the held-for-sale criteria have been recorded under net earnings from discontinued operations during the three months ended March 31, 2009 and 2008.

Rentals from Income Properties	Three months ended March 31		
(in thousands of dollars)	**2009**	2008	Change
Same-asset – current rentals	**$150,638**	$140,748	$9,890
Same-asset – straight-lining of contractual rent increases	**3,729**	3,918	(189)
Acquisitions – current rentals and straight-lining of contractual rent increases	**3,785**	-	3,785
Boscov's Department Stores	**-**	2,633	(2,633)
Total rentals	**$158,152**	$147,299	$10,853

The increase in same-asset current rentals of $9.9 million for Q1 2009 as compared to Q1 2008 is primarily due to the following items:

- the portfolio's U.S. dollar rental income increased by $6.2 million due to the decrease in the Canadian dollar as compared to the U.S. dollar and an increase in the U.S. portfolio's property operating costs which are recoverable from tenants; and

- rental income from properties in Canada increased by $3.5 million in Q1 2009 as compared to Q1 2008 due primarily to increased property operating costs which are recoverable from tenants.

The rentals from new properties developed or acquired exceeded the rentals lost from the Boscov's Department Stores by approximately $1.2 million. The REIT added two new income properties between January 1, 2008 and March 31, 2009.

Property Operating Costs

Property operating costs include costs relating to such items as cleaning, interior and exterior building repairs and maintenance, elevator, HVAC and insurance (collectively "building operating costs"); realty taxes; utilities and property management fees (see "Related Party Transactions") among other items. For Q1 2009, building operating costs, realty taxes, utilities and property management fees represented 21.2%, 53.2%, 12.6%, and 4.2% respectively of total property operating costs (Q1 2008 - 16.2%, 55.4%, 12.8% and 7.1%).

Property Operating Costs	Three months ended March 31		
(in thousands of dollars)	**2009**	2008	Change
Same-asset property operating costs	**$51,065**	$47,066	$3,999
Acquisitions	**1,162**	-	1,162
Boscov's Department Stores	**32**	320	(288)
Total property operating costs	**$52,259**	$47,386	$4,873

Same-asset property operating costs have increased by $4.0 million for the three months ended March 31, 2009 over the respective 2008 period. The majority of the increase is due to an increase in repairs and maintenance and realty taxes offset by the decrease in the bonus accrued to H&R Property Management of $1.0 million.

Same-Asset Property Operating Income	Three months ended March 31		
(in thousands of dollars)	**2009**	2008	Change
Same-asset rentals	**$154,367**	$144,666	$9,701
Same-asset - property operating costs	**51,065**	47,066	3,999
Total same-asset - property operating income	**$103,302**	$97,600	$5,702
Total same-asset – property operating income excluding straight-lining of contractual rent	**$99,573**	$93,682	$5,891

As can be seen above, total same-asset property operating income has increased by $5.7 million for the three months ended March 31, 2009 as compared to previous period. The reason for the increase in the three months is due primarily to a weakening of the Canadian dollar during Q1 2009 as compared to Q1 2008. This is more evident when the same-asset property income is split between Canada and the U.S. as shown below.

Canada	Three months ended March 31		
(in thousands of dollars)	**2009**	2008	Change
Same-asset total rentals	**$124,162**	$120,678	$3,484
Same-asset property operating costs	**45,919**	43,415	2,504
Same-asset property operating income	**$78,243**	$77,263	$980
United States			
Same-asset total rentals	**$30,205**	$23,988	$6,217
Same-asset property operating costs	**5,146**	3,651	1,495
Same-asset property operating income	**$25,059**	$20,337	$4,722
Total same-asset property operating income	**$103,302**	$97,600	$5,702

The increase in the Canadian same-asset property operating income is mainly due to a decrease to the bonus accrual of $1.0 million as previously mentioned.

The increase in the U.S. same-asset property operating income for the quarter is due to the strengthening of the U.S. dollar. Had the U.S. same-asset property operating income been reported in U.S. dollars, the dollar value would have been virtually the same for the three months ended March 31, 2009 as it was for the three months ended March 31, 2008.

Mortgage Interest and other Income	Three months ended March 31		
(in thousands of dollars)	**2009**	2008	Change
Mortgage interest and other income	**$1,824**	$596	$1,228

Interest income increased when comparing Q1 2009 to Q1 2008. The increase is primarily due to two new vendor takeback mortgages totalling $61 million which the REIT granted upon the sale of 110 Bloor Street

West in Toronto, Ontario in December of 2008 along with a new mortgage receivable of $16 million granted in July 2008 to a joint venture in which the REIT has an 80% ownership.

Interest

	Three months ended March 31		
	2009	2008	Change
(in thousands of dollars)			%
Interest on mortgages payable	**$47,722**	$45,366	5
Interest on convertible debentures	**2,324**	-	n/a
Amortization of mortgage premium	**(412)**	(432)	(5)
Bank interest and charges	**1,496**	1,679	(11)
	51,130	46,613	10
Capitalized interest	**(6,599)**	(3,827)	72
Mortgage and other interest expense	**$44,531**	$42,786	4

There was a moderate increase in mortgage interest expense for the three months. The repayment of mortgages maturing during the entire 2008 year ($34 million), the sale of properties in 2008 and the refinancing of a $35 million mortgage, in which the interest rate was reduced from 10.75% to 4.96% during the first quarter of 2008, partially offset the slight increase in mortgages payable over the corresponding periods and the change in the Canadian/U.S. exchange rate. Included in mortgage interest for the three months ended March 31, 2009 is an accrual of $2.3 million which relates to interest accrued for the mortgages on the Boscov's Department Stores after the lender had taken control of the properties. Upon the lender taking title to the properties and releasing the REIT's subsidiaries from all obligations under these mortgages this accrual will be reversed into income.

In June 2008, the REIT issued $115 million of convertible debentures. These debentures on which interest is payable semi-annually, resulted in interest expense of $2.3 million for the three month period ended March 31, 2009.

The amount of capitalized interest will continue to increase as the REIT continues to fund its development projects. The majority of this increase is due to the Bow development.

As at March 31, 2009 and 2008, the REIT's weighted average contractual mortgage rate was 6.2% and 6.3%, respectively.

Depreciation and Amortization

	Three months ended March 31		
(in thousands of dollars)	**2009**	2008	Change
Depreciation of income properties	**$24,542**	$22,474	$2,068
Amortization of deferred leasing expenses	**1,396**	1,098	298
Amortization of intangible assets on acquisitions	**6,415**	6,291	124
Total depreciation and amortization	**$32,353**	$29,863	$2,490

Depreciation of income properties is charged to income on a straight-line basis over the estimated useful life of the property. Commencing January 1, 2009, the REIT no longer defers capitalized cost expenditures recoverable from tenants and no longer records the amortization of these deferred expenditures over the period which revenue is recovered from tenants. This change requires the REIT to capitalize capital expenditures recoverable from its tenants and depreciate it over their useful life. If the capitalization criteria is not met, the REIT expenses the amount as incurred. This will result in additional depreciation expense.

Amortization of deferred leasing expenses increased slightly when comparing Q1 2009 to Q1 2008 due to new and renewed leases which came into effect throughout the entire portfolio.

Amortization of intangible assets on acquisitions of properties increased slightly from Q1 2008 to Q1 2009. For acquisitions of properties after September 12, 2003, the acquisition cost is allocated to land, buildings, paving and equipment and intangible assets. These intangible assets include the value of above- and below-market leases, in-place operating leases and customer relationship value. In-place leasing costs are those costs that would be incurred to lease up the property had it been vacant upon acquisition, and include commissions, tenant allowances and inducements.

Gain on Foreign Exchange	Three months ended March 31		
(in thousands of dollars)	**2009**	2008	Change
Gain on foreign exchange	**$4,895**	-	n/a

The gain on foreign exchange which was recorded in Finance Trust is due to a difference in exchange rates between January 1, 2009 and March 31, 2009 as the notes receivable from U.S. Holdco (which is eliminated upon combination) are denominated in U.S. dollars while the financial statements of Finance Trust are denominated in Canadian dollars.

Impairment Loss on Income Properties	Three months ended March 31		
	2009	2008	Change
(in thousands of dollars)			%
Impairment loss on income properties	**$8,229**	-	n/a

On November 10, 2008, a tenant, Circuit City, filed for Chapter 11 protection with a United States bankruptcy court. The tenant subsequently terminated its lease on March 22, 2009. The one industrial building has a gross leasable area of approximately 1,078,000 square feet. As at March 31, 2009, this property had a non-recourse mortgage outstanding totalling $25.1 million. The REIT has written down the property to $25.1 million. This filing for Chapter 11 protection has partially led to an increase in the vacancy of the REIT's industrial portfolio, see "Overview".

Trust Expenses	Three months ended March 31		
(in thousands of dollars)	**2009**	2008	Change
Trust expenses	**$1,863**	$1,495	$368

Trust expenses are primarily comprised of salaries, professional fees and trustee fees. Trust expenses increased quarter over quarter due primarily to an increase in professional fees and salaries.

Salaries, professional fees and trustee fees represented approximately 41.9%, 34.3% and 4.8% for Q1 2009. The percentages for Q1 2008 are 44.0%, 32.5% and 5.3%.

For the three months ended March 31, 2009, total trust expenses amounted to 1.2% of rentals from income properties (March 31, 2008 - 1.0%).

Income Taxes	Three months ended March 31		
(in thousands of dollars)	**2009**	2008	Change
Current income taxes at U.S. federal applicable state statutory rates	**$70**	$74	($4)
U.S. federal withholding taxes	**3**	537	(534)
Future income taxes at Canadian corporate and applicable provincial statutory rates	**4,515**	1,783	2,732
Total income taxes	**$4,588**	$2,394	$2,194
Future income taxes included in the determination of other comprehensive income (loss)	**$60**	**$647**	($587)

The REIT is generally subject to tax in Canada under the Tax Act with respect to its taxable income each year, except to the extent such taxable income is paid or made payable to Unitholders and deducted by the REIT for tax purposes.

Pursuant to the REIT's Declaration of Trust, the Trustees intend to distribute or designate all taxable income directly earned by the REIT to Unitholders of the REIT such that the REIT will not be subject to income tax under Part I of the Tax Act.

Due to the enactment of the specified investment flow-through ("SIFT") rules on June 22, 2007, the REIT commenced recognizing future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax basis of its assets and liabilities, including those related to its subsidiary trusts, that are expected to reverse in or after 2011. The SIFT rules are not expected to apply to the REIT before 2011 as they provide a transition period for publicly traded trusts such as the REIT that qualified as a SIFT trust prior to November 1, 2006 provided the REIT does not at any time after December 15, 2006 exceed the normal growth guidelines released by the Department of Finance. In addition, the SIFT rules do not apply to an entity that qualifies for the REIT exemption. On March 12, 2009, legislation for technical amendments to the SIFT rules received royal assent. These technical amendments make it easier to qualify for the REIT exemption, including removing any distinction between Canadian and foreign real properties.

The REIT does not currently meet certain technical requirements for the REIT exemption. Management is of the view that it can make changes that are within its control, and restructure its investment in H&R Portfolio Limited Partnership ("HRLP"), in order to qualify for the REIT exemption prior to 2011. As the REIT currently does not qualify, GAAP requires the REIT to prepare its accounts on the basis that the new rules currently apply. Future income tax assets or liabilities are recorded using tax rates and laws expected to apply when the temporary differences are expected to reverse. The SIFT rules resulted in the REIT including a future income tax liability of $137.9 million in the consolidated balance sheet at March 31, 2009, with a future income tax expense of $4.5 million reflected as a charge to consolidated earnings for the three months ended March 31, 2009 and a future income tax expense of $0.1 million reflected as a charge to other comprehensive income. Temporary differences expected to reverse in or after 2011 have been measured using a tax rate of 30.5% in 2011 and 29% thereafter.

Future income tax recovery relating to other comprehensive income of $0.1 million for the quarter ended March 31, 2009 (Q1 2008 - $0.7 million) represent future taxes to be paid on other comprehensive income. This liability will decrease as other comprehensive income is transferred to earnings.

For the quarter ended March 31, 2009, current income taxes amounted to $0.1 million (Q1 2008 - $0.1 million).

Under United States tax law, the REIT may be subject to tax on a portion of its United States source income.

The REIT intends to designate its directly held United States source income to Unitholders such that the Unitholders may be able to utilize foreign tax credits in respect of U.S. tax paid by the REIT.

On September 21, 2007, the fifth protocol (the “Protocol”) to the Canada-U.S. Income Tax Convention was signed. The Protocol was ratified in December 2008, and provides for the eventual elimination of withholding taxes on interest payments between related parties. The 10% withholding tax on cross-border interest payments between related parties (such as between the REIT and its wholly owned U.S. subsidiary) will be reduced to 4% as of January 1, 2009 and 0% as of January 1, 2010. A refund of approximately $0.5 million for interest paid from January 1, 2008 to September 30, 2008 was received subsequent to March 31, 2009.

See the “Tax Risk” section for a discussion of draft legislation proposed by the Minister of Finance regarding the federal income taxation of publicly listed or traded income trusts and certain other flow-through entities.

Non-controlling Interest

Net earnings attributable to the Class B unitholders of HRLP, a subsidiary partnership, have been segregated and deducted from the net earnings of the REIT. For a further discussion regarding non-controlling interest, please refer to “Non-Controlling Interest”.

The non-controlling interest is separated between continuing operations and discontinued operations. The amount of non-controlling interest deducted from income from continuing operations for Q1 2009 is $0.4 million (Q1 2008 – $1.2 million).

Net Earnings from Discontinued Operations

When the REIT decides to sell an asset that no longer fits its investment strategy and re-distribute the proceeds towards more attractive opportunities or when a tenant exercises an option under the terms of its lease to purchase a property, or when the REIT initiates the sale of an asset, the net property operating income, any gain or loss as a result of the sale and the attributable portion of non-controlling interest for those properties are presented on the income statement in net earnings from discontinued operations as summarized below:

Net Earnings from Discontinued Operations	Three months ended March 31		
(in thousands of dollars)	**2009**	2008	Change
Net property operating income	**$1,033**	$3,393	($2,360)
Income taxes	**-**	-	-
Gain on sale of income properties	**424**	14,407	(13,983)
Non-controlling interest	**(54)**	(917)	863
Net earnings from discontinued operations	**$1,403**	$16,883	($15,480)

During the three months ended March 31, 2009, the REIT sold two income properties (March 31, 2008 - two) for gross proceeds of $20.8 million (2008 – $40.4 million). The net earnings from discontinued operations include the results from these properties as well as from the properties currently held for sale.

2009 Dispositions

Property	Property Type	Date Sold	Square Footage	Gross Proceeds ($ Millions)	Ownership Interest disposed
2435 EW Connector, Austell, GA	Retail	Feb 10, 09	115,396	$16.4	100%
97 Thames Rd., E. Exeter, ON	Industrial	Mar 16, 09	84,000	4.4	100%
Total			199,396	$20.8	

2008 Dispositions

Property	Property Type	Date Sold	Square Footage	Gross Proceeds ($ Millions)	Ownership Interest disposed
6580 Millcreek Dr., Mississauga, ON	Industrial	Mar 05, 08	249,634	$21.2	100%
6590 Millcreek Dr., Mississauga, ON	Industrial	Mar 05, 08	225,694	19.2	100%
Total			475,328	$40.4	

Properties currently held for sale

Property	Property Type	Square Footage	Ownership Interest
75 Frontenac Dr., Markham, ON	Industrial	243,614	100%
500 Bayly St. E, Ajax, ON	Industrial	909,286	100%
Total		1,152,900	

DISTRIBUTABLE CASH

Management uses distributable cash, which is defined in the Declaration of Trust and of which, subject to the discretion of the trustees in certain circumstances, at least 80% must be distributed to Unitholders, as a relevant measure of its ability to earn and distribute cash returns to Unitholders.

DC should not be construed as an alternative to net earnings or cash provided by operations determined in accordance with GAAP as an indicator of the Trusts' performance. (See also "Non-GAAP Financial Measures"). Depreciation, accrued rent, gains or losses on sales, future income taxes and other non-cash items are added to, or deducted from, net earnings to determine the amount of cash available for distribution. The most substantial adjustment to calculate DC is the adding back of depreciation to net earnings as it is management's belief that properly maintained and managed commercial real estate should not depreciate substantially over time and therefore no deduction is required.

The Trusts have also issued Stapled Units to mirror the Class B Units of HRLP which gave rise to the non-controlling interest adjustment in determining net earnings. As these Stapled Units have been issued and are outstanding and monthly distributions are made thereon as with all other units, DC will be adjusted by adding back these non-controlling interest amounts and the weighted and diluted weighted average number of units outstanding will reflect the actual number of units issued and outstanding.

In connection with the REIT's development of the Bow, the REIT has provided a loan to a wholly owned subsidiary of the REIT, and is charging an interest rate of 9% per annum. The interest earned on this loan is eliminated on consolidation but as the REIT considers it a cost of the project, the difference between the interest capitalized to the project in accordance with GAAP (currently 6.2%) and the 9% charged has been added back to DC.

The REIT has added back interest on the Boscov's Department Stores mortgages. While this interest has been accrued and expensed in the statement of earnings, it has not been paid. The reason for this is that management has handed over control of the seven income properties to the lender and therefore expects to be released from any further obligations under these non-recourse mortgages. Interest will continue to accrue and will be expensed under Canadian GAAP until the lender takes title to the properties and releases the REIT's subsidiaries from their debt obligations.

Distributable Cash	Three months ended March 31	
(in thousands of dollars except unit and per unit amounts)	**2009**	2008
Net earnings	**$22,098**	$39,613
Add (deduct)		
Straight-lining of contractual rent	**(4,021)**	(4,208)
Depreciation of income properties	**25,402**	22,817
Amortization of intangible assets on acquisitions	**6,415**	6,295
Amortization of above- and below-market rent	**300**	(176)
Amortization of mortgage premium	**(449)**	(477)
Interest differential on the Bow project	**2,464**	1,219
Mortgage interest accrual on the Boscov properties	**2,341**	-
Unit-based compensation	**63**	-
Impairment loss on income properties	**8,229**	-
Gain on sale of income properties	**(424)**	(14,407)
Gain on foreign exchange	**(4,895)**	-
Withholding taxes	**-**	537
Future income taxes	**4,515**	1,783
Net earnings attributable to non-controlling interest	**407**	2,158
Distributable cash	**$62,445**	$55,154
Distributions to unitholders	**$25,570**	$46,329
Distributions to non-controlling interest	**979**	2,511
Total cash distributions paid	**$26,549**	$48,840
Weighted average number of units (in thousands of units)	**147,496**	135,667
Diluted weighted average number of units (in thousands of units)	**147,496**	136,298
Basic (adjusted for conversion of non-controlling interest) DC per unit	**$0.423**	$0.407
Diluted DC per unit	**$0.423**	$0.405
Cash distributions paid per unit	**$0.180**	$0.360
Total cash distributions paid per unit as a % of DC	**42.6%**	88.5%

The major reasons for the net increase in basic DC per unit of $0.016 for the quarter ended March 31, 2009 as compared to the quarter ended March 31, 2008 are outlined below:

The increases in DC are due to the interest capitalized on the Bow project along with an increase of $2.2 million due to the U.S. dollar strengthening for Q1 2009 as compared to Q1 2008, a reduction in management fees and amortization and the acquisition of one income property and the transfer of two properties from properties under development to income properties incurred over the past 15 months ($265 million).

These increases were offset by the interest expense of $2.3 million from the convertible debentures, the vacancy of the Boscov's Department Stores, properties sold during the last 15 months and unit dilution.

Distributions made for the respective three months ended March 31, 2009 and 2008 amounted to $26.5 million and $48.8 million. The percentage of cash distributions paid as a percentage of DC outlined above decreased quarter over quarter due to the decrease in the amount of distributions paid monthly. The trustees reduced the percentage of cash distributions paid as a percentage of DC as they anticipate a cash shortfall due to financial market conditions and the REIT's capital funding requirements and determined that it would be in the best interests of the REIT.

The tax deferred portion of distributions for 2008 was 46%. This deferral will vary in any given year due to factors such as the amount of distributions paid, the size and timing of unit offerings, the amount and timing of acquisition of properties, the provision of mezzanine financing for development projects and capital gains or losses incurred in any one year.

The following is a reconciliation of the REIT's distributable cash to cash provided by operations.

	Three months ended March 31	
(in thousands of dollars)	**2009**	2008
Distributable cash	**$62,445**	$55,154
Change in other non-cash operating items	**4,774**	11,049
Straight-lining of contractual rent increases	**4,021**	4,208
Rent amortization of tenant inducements	**629**	490
Amortization of deferred leasing expenses	**1,396**	1,106
Amortization of mortgage premium	**449**	477
Accretion on debt component of convertible debentures	**438**	-
Interest differential on the Bow Project	**(2,464)**	(1,219)
Mortgage interest accrual on the Boscov properties	**(2,341)**	-
Realized loss on foreign exchange	**(20)**	-
Withholding taxes	**-**	(537)
Other	**654**	546
Unit-based compensation	**(63)**	-
Cash provided by operations	**$69,918**	$71,274

Note:

All of the above-noted adjustments made in order to reconcile cash provided by operations to DC of the REIT are discretionary in nature and the basis for each such adjustment is discussed below.

The REIT's definition of DC does not adjust for the change in other non-cash operating items, which represents balance sheet changes only and therefore is subtracted from DC in order to reconcile to cash provided by operations.

Straight-lining of contractual rent is deducted in calculating DC because the REIT does not receive this cash in the current period. Therefore straight-lining of contractual rent must be added back to reconcile to cash provided by operations.

Even though these are non-cash items, the REIT deducts rent amortization of tenant inducements, amortization of deferred leasing expenses, amortization of deferred financing expenses and amortization of deferred costs to arrive at DC as it is the REIT's intention that DC should be calculated on a net effective rental basis. All of these items are deducted when determining a net effective rental stream or net effective interest rate but are required to be added back to reconcile to cash provided by operations.

Amortization of mortgage premium is deducted in calculating DC as this is a non-cash item. This item is included within cash flows from financing on the statement of cash flows and not included in the reconciliation to cash provided by operations.

The Bow interest differential, while added back for DC purposes as discussed above has been eliminated on consolidation and must therefore be deducted when calculating cash provided by operations.

Withholding taxes which are added back to DC are deducted when reconciling back to cash provided by operations as these amounts are deducted in determining net income, which flows into cash provided by operations.

The Boscov's Department Stores mortgage interest accrual is not expected to be paid and is therefore added back for DC purposes, and must be deducted when reconciling to cash provided by operations.

The accretion on debt component of convertible debentures expense on the convertible debentures and other which includes amortization relating to changing the amortization method on financial instruments from the straight line method to the effective interest rate method and the transfer of realized loss on cash flow hedges from accumulated other comprehensive loss to net earnings are non-cash items and must be included when reconciling to cash provided by operations.

Unit-based compensation is added back when calculating DC as this is a non-cash item. This item is included in equity, so must be deducted when reconciling back to cash provided by operations.

SEGMENTED INFORMATION

The REIT invests in office, industrial and retail properties in both Canada and the United States.

The REIT is not required to report in its financial statements on the performance of each class of asset separately due to management's assessment that all assets effectively adhere to the same investment policy of being leased on a long-term basis to creditworthy tenants and financed where possible on a matching long-term basis and the fact that the REIT manages all assets on a similar basis.

Segmented disclosure is provided in the financial statements by net property operating income on a geographic basis as the property operations in the United States are considered to be a geographic segment. This segmented information on net property operating income is as follows:

Net property operating income for the three months ended March 31, 2009

(in thousands of dollars)	Canada	United States	Total
Operating revenue	**$129,647**	**$30,329**	**$159,976**
Property operating costs	**(47,074)**	**(5,185)**	**(52,259)**
Mortgage and other interest expense	**(28,568)**	**(15,963)**	**(44,531)**
Depreciation and amortization	**(23,108)**	**(9,245)**	**(32,353)**
Net property operating income	**$30,897**	**($64)**	**$30,833**

Net property operating income for the three months ended March 31, 2008

(in thousands of dollars)	Canada	United States	Total
Operating revenue	$121,161	$26,734	$147,895
Property operating costs	(43,413)	(3,973)	(47,386)
Mortgage and other interest expense	(30,203)	(12,583)	(42,786)
Depreciation and amortization	(22,116)	(7,747)	(29,863)
Net property operating income	$25,429	$2,431	$27,860

Operating revenue from income properties in the United States has increased by $3.6 million or 13% for the quarter ended March 31, 2009 compared to the same period in 2008. The increase quarter over quarter is due to a large fluctuation in the exchange rate. U.S. operating revenue for the three months ended March 31, 2009 was USD $24.3 million as compared to March 31, 2008 of USD $26.7 million, a 9% decrease. The reason for the decrease quarter over quarter was due to no rent being received (while mortgage interest still continues to accrue) as a result of the Boscov's Department Store lease terminations whereas in 2008 rent was received during the first quarter.

The net property operating income for properties located in the United States for the three months ended March 31, 2009 is a loss of $0.1 million. The loss is primarily due to $2.3 million of mortgage interest accrued for the Boscov's Department Stores mortgages, with no rent being received for 2009.

ASSETS

Income Properties

There were no properties acquired during the three months ended March 31, 2009. The table below lists the properties acquired during the year ended December 31, 2008. These acquisitions less the mortgages assumed at closing were funded from the REIT's general operating facility and from the proceeds received from the securities offering that was completed in June 2008.

2008 Acquisitions:

Property	Property Type	Date Acquired	Square Footage	Purchase Price ($ Millions)	Contractual Mortgages Assumed on Closing ($ Millions)		Ownership Interest Acquired
200 Monroeville Mall, Monroeville, PA	Retail	Feb 12, 08	263,700	$11.7	$8.7	*	45%
301 South Hills Village, Pittsburgh, PA	Retail	Feb 12, 08	264,855	11.5	8.6	*	45%
8220 Perry Hall Blvd., Nottingham, MD	Retail	Feb 12, 08	219,996	10.3	7.7	*	45%
10300 Mill Run Circle, Owings Mill, MD	Retail	Mar 24, 08	293,060	10.5	7.8	*	45%
7900 Richie Hwy., Glen Burnie, MD	Retail	Mar 24, 08	274,050	10.6	7.9	*	45%
500 Montgomery Mall, North Wales, PA	Retail	Mar 24, 08	182,541	9.3	6.9	*	48%
2300 East Lincoln Hwy., Langhorne, PA	Retail	Mar 24, 08	181,212	9.4	6.9	*	48%
SE corner of Washington Rd., & Harrison Rd., Thompson, GA[(1)]	Retail	Oct 16, 08	14,550	5.4	-		100%
Total			1,693,964	$ 78.7	$54.5		

* Indicates non-recourse. Non-recourse mortgages are generally non-recourse to the REIT but have recourse to the specific property to which the mortgage applies

(1) upon the sale of a property in 2007, the mortgage on that property was not discharged. That mortgage was transferred to this property upon its purchase. The amount of the mortgage outstanding at the date of acquisition was $2.9 million with an interest rate of 5.8%

The dollar figures shown above for U.S. acquisitions are in Canadian dollars and are based on the exchange rates at the time of such acquisitions.

Income properties increased by $44.7 million which arose as a result of the U.S. dollar converting at $1.26 Canadian at March 31, 2009 as compared to $1.22 Canadian at December 31, 2008.

After accounting for the change in foreign exchange, the transfer of a $119 million property from properties under development to income properties, the dispositions and impairment write down mentioned previously and for depreciation and amortization expensed, income properties increased by 2% to $4.65 billion at March 31, 2009 (including income properties held for sale) from $4.55 billion at December 31, 2008.

The portfolio remains relatively new and should require minimal capital expenditure in the future. The average age of the total portfolio from the date built or renovated is 15.0 years at March 31, 2009 (December 31, 2008 - 14.9 years) and the split between type of asset by age of property is as follows:

	March 31, 2009 (years)	December 31, 2008 (years)
Office	**17.6**	18.1
Industrial	**15.3**	15.0
Retail	**11.6**	11.2
Total	**15.0**	14.9

Debt related to certain Canadian properties is held by separate legal entities, where the rent received from each property is first used to satisfy the related debt obligations with any balance then available to satisfy the cash flow requirements of the REIT.

Legal title to each of the United States properties is held by a separate legal entity which is 100% owned, directly or indirectly, by U.S. Holdco, a subsidiary of the REIT. The assets of each such separate entity are not available to satisfy the debts or obligations of any other person or entity; each such separate entity maintains separate books and records. The identity of the owner of a particular U.S. property is available from U.S. Holdco. This structure does not prevent distributions to U.S. Holdco provided there are no conditions of default.

The composition of the book value of income properties (including income properties held for sale) expressed by type of asset and by region is as follows:

Book Value by Type of Asset (millions)	**March 31, 2009**	December 31, 2008
Office	**$1,621**	$1,512
Industrial	**1,652**	1,665
Retail	**1,373**	1,369
	$4,646	$4,546

Book Value by Region (millions)	**March 31, 2009**	December 31, 2008
Ontario	**$1,973**	$1,873
Alberta	**605**	609
Other	**452**	456
Quebec	**242**	245
Canada	**3,272**	3,183
United States	**1,374**	1,363
Total	**$4,646**	$4,546

As part of the change in accounting policy effective January 1, 2009 (see "Changes to Significant Accounting Policies for 2009") whereby capital expenditures are now either to be capitalized and depreciated or expensed in the year incurred, the REIT expects to spend approximately $5.4 million for the remainder of 2009 and $10.5 million for 2010. Of these amounts, $4.6 million and $9.2 million are expected to be capitalized to income properties. The recovery of these costs from tenants is dependent upon the tenants' leases. It is expected that 90% of costs incurred in 2009 and 65% of those costs to be incurred in 2010 will be recoverable from tenants. The REIT expects to be able to fund its capital expenditure program through excess cash generated by operations.

Properties under development

The REIT entered into agreements to develop the Bow, a 2 million square foot head office complex in Calgary, Alberta for a budgeted cost of approximately $1.5 billion. The budget includes capitalized interest on the REIT's equity investment and the 1,361 parking stalls on both the North and South Blocks. The total budget includes approximately $85 million in development cost contingencies. The REIT has entered into fixed price contracts amounting to approximately 70% of the budgeted $1.05 billion of hard construction costs. As a result, together with the costs incurred to date, the REIT has effectively locked in 80% of the total budget before contingencies. The REIT is expecting to incur approximately $345 million of the Bow's development costs over the next nine months. See "Liquidity and Capital Resources" for the budget breakdown and the anticipated sources of funds.

The building is fully pre-leased to EnCana Corporation for 25 years. EnCana Corporation will begin to occupy the building in tranches scheduled to commence in the second half of 2011 with the final tranche occurring in 2012. The total annualized year one projected income from the Bow is expected to be $94.3 million. Rent step ups will be 0.75% per annum on the EnCana lease and 1.5% per annum on the parking income for the full 25-year term. In certain circumstances, should the delivery of tranches of space within the project be delayed, the REIT will be liable to the tenant for certain delay costs which may be significant. During Q1 2009, the REIT incurred an additional $56.9 million in this project to bring the REIT's total investment to $458.9 million (December 31, 2008 - $402.0 million). Structural steel erection continues and is as high as Floor 12 in the core area. Metal deck installation continues on all levels below the steel erection. The pouring of the elevator and stair shaft walls in the basement has now begun.

An investment of $25.4 million was made in March 2006 (in which the REIT has an 80% interest) to purchase 72 acres of development land located on Airport Road in Mississauga, Ontario. The project is expected to provide a total of 1.6 million square feet of single tenant industrial distribution facilities upon completion. The REIT has granted a mortgage receivable to the joint venture for $16 million in total. This is to replace the previous bank indebtedness associated with this land. See "Mortgages and Amount Receivable" for further information. This investment in properties under development increased by $0.6 million to $33.3 million at March 31, 2009 from $32.7 million at December 31, 2008.

In August 2008, an investment of $34.5 million was made to purchase 98.6 acres of development land located in Caledon, Ontario. The land forms part of the planned community of Mayfield West. The project is expected to produce 1.7 million square feet of industrial properties. As at March 31, 2009, this investment had increased to $39.1 million, an increase of $0.6 million from December 31, 2008.

During Q4 2007, the REIT exercised its purchase option and commenced construction of the 348,000 square foot Phase III expansion of Bell Canada's state-of-the-art office complex in Mississauga, Ontario. The project had a construction cost of $119 million. This project was transferred to income properties in Q1 2009 when the tenant commenced paying rent from January 1, 2009.

The transactions above have given rise to a total of $531.3 million for properties under development at March 31, 2009 (December 31, 2008 - $590.2 million).

Deferred Leasing Expenses

(in thousands of dollars)	**March 31, 2009**	December 31, 2008
Deferred leasing expenses	**$28,507**	$28,276

Deferred leasing expenses relate to those expenditures incurred to re-lease premises once it becomes vacant through lease expiries or upon lease renewals and include costs such as legal fees, brokers' commissions, tenant improvements and allowances. These costs are deferred and amortized over the term of the specific lease to which they relate. After adjusting for amortization of $1.4 million (including amortization included within discontinued operations), the total leasing costs incurred during the period ended March 31, 2009 was $1.6 million (December 31, 2008 - $7.7 million). Some of the larger costs were incurred at the following properties:

- 7500 Lundy's Lane, Niagara Falls, ON
- 35 Alkenbrack St. Napanee, ON
- 7065 Tranmere Dr., Mississauga, ON
- 475 Admiral Blvd., Mississauga, ON

Accrued Rent Receivable

Certain leases call for rental payments that increase over the lease term. To comply with Canadian GAAP, the rental revenue from these leases are recorded on a straight-line basis, resulting in accruals for rents that are not billable or due until future periods. Accrued rent receivable has increased by 4% or $4.3 million from

$117.3 million at December 31, 2008 to $121.5 million at March 31, 2009 with a corresponding increase to rentals from income properties.

The chart below lists some of the larger contractual rental step ups for the REIT occurring over the next 12 months.

Property	Sq.ft.	Rent Increase ($ psf)	Effective date of increase	Annualized Rental Increases (in thousands of dollars)
100 Metropolitan Blvd.	738,102	0.49	Apr 29, 09	362
25 Sheppard Ave., W	160,437	8.00	Jul 1, 09	1,283
220 Chemin du Tremblay	727,966	0.41	Aug 11, 09	298
55 Yonge St.	98,051	1.91	Sep 1, 09	187
Rona portfolio (9 properties)	973,484	0.86	Nov 2, 09	837
Northpointe Shopping Centre	72,053	1.38	Nov 10, 09	100
1400 Church St.	716,261	0.58	Jan 17, 10	415

Mortgages and Amount Receivable

Upon the sale of 110 Bloor St. in December 2008, the REIT took back two mortgage receivables. The first is for $58 million due December 1, 2010, bearing interest at 6% per annum with interest being payable monthly. Under GAAP, the REIT was required to perform a mark to market valuation on this mortgage to increase the interest rate to fair value as the mortgage is a secondary charge on the property. The mark to market as at March 31, 2009 reduces the value of the mortgage receivable by $0.8 million. The second vendor takeback mortgage is for $3.0 million, bearing interest at 6% per annum, with interest only being due quarterly and maturing December 1, 2013. Both amounts may be prepaid at any time.

There was one property for which the REIT had provided a vendor take-back mortgage totalling $16.4 million (December 31, 2008 - $16.4 million) with an interest rate of 5.3% per annum, repayable on December 13, 2009.

During the twelve months ended December 31, 2008, the REIT granted a mortgage receivable to a joint venture in which the REIT has an 80% ownership interest. As a result, there is an additional $3.2 million (December 31, 2008 – $3.2 million) which is currently outstanding from the joint venture partner. This mortgage receivable bears interest at a rate of prime plus 115 basis points and is repayable 60 days after demand but not earlier than July 28, 2009.

In conjunction with the sale during 2008 of ten income-producing properties, the purchaser agreed to assume an aggregate mortgage balance of $82.6 million, and indemnify the REIT until such time that the lenders consent and release the REIT in respect of these mortgages. The REIT has been legally released from its obligation on nine properties. At March 31, 2009, the REIT has not been legally released from its mortgage obligation for the remaining property, resulting in an outstanding aggregate mortgage balance of $5.8 million. As a result, the REIT recorded an amount receivable from the purchaser at fair value which is equivalent to the contractual mortgage payable balance outstanding as at March 31, 2009 and continues to record the aggregate mortgage payable balance as at March 31, 2009. The mortgage receivable balance is due on demand if: a) the lender does not consent to the assumption of the mortgage payable balance by the purchaser, resulting in the outstanding mortgage payable balance being due on demand by the lender; and b) the purchaser fails to fulfill the monthly contractual mortgage payments under the original debt agreements.

Other Assets

Tenant inducements represent those costs for which the REIT has given the tenant cash as an inducement to enter into a lease agreement. This amount is amortized over the life of the applicable lease and the amortization is deducted from rentals from income properties. Tenant inducements for the period ended March 31, 2009 increased by $13.4 million to a balance of $28.4 million (December 31, 2007 - $15.0 million). The increase relates to inducements payable to tenants at 500 Bayly and BMCC Phase III amounting to $14.0 million. These inducements were part of the construction budgets of these two properties.

Prepaid expenses and sundry assets increased from $13.8 million at December 31, 2008 to $15.8 million at March 31, 2009, an increase of 15%. The increase is primarily due to an increase in prepaid taxes as at March 31, 2009 as compared to December 31, 2008.

Accounts receivable decreased by $0.5 million between March 31, 2009 and December 31, 2008. The decrease is due to fluctuations arising during the normal course of business operations.

Cash and cash equivalents decreased to $16.3 million at March 31, 2009 from $17.7 million at December 31, 2008.

Restricted cash at March 31, 2009 is $10.1 million (December 31, 2008 - $4.5 million) related to funds being held in escrow until the expiry of certain non-recourse public mortgage bonds, other non-recourse U.S. mortgages and amounts held in escrow for the repayment of mortgages

LIABILITIES

The REIT's Declaration of Trust limits the indebtedness of the REIT (subject to certain exceptions) to a maximum of 65% of the gross book value ("GBV") of the REIT. The REIT's allocation of debt, including bank indebtedness, is as follows:

	March 31, 2009	December 31, 2008
Total debt to GBV	**55.9%**	56.4%
Total debt to GBV per the Declaration of Trust [1]	**54.2%**	54.7%
Non-recourse debt as a percentage of total debt	**51.8%**	51.4%
Floating rate debt as a percentage of total debt	**3.9%**	3.3%

(1) Total debt per the Declaration of Trust excludes the convertible debentures and any debt incurred in connection with the Bow. The REIT's calculation of total debt to GBV is not recognized under GAAP and therefore does not have a standardized meaning prescribed by GAAP

There were no material changes in the debt allocation above. The high percentage of non-recourse debt in the REIT's portfolio is a deliberate strategy adopted by the REIT to reduce risk within the property portfolio.

Mortgages Payable

Mortgages payable (including mortgages payable on income properties held for sale) remained relatively unchanged from the December 31, 2008 figure of $3.16 billion. The slight increase is primarily due to an increase in the U.S. dollar whereby the conversion rate at December 31, 2008 was $1.22 and at March 31, 2009 was $1.26, resulting in an increase of $34 million. This increase is offset by the repayment and discharge of two mortgages totalling $10.5 million and regular principal repayments.

The mortgages bear interest at the weighted average rate of 6.2% (December 31, 2008 – 6.2%) and mature between 2009 and 2035. The weighted average term to maturity of the REIT's mortgages is 9.0 years (December 31, 2008 - 9.3 years). Going forward, the REIT anticipates being able to refinance all its debt as it matures. Of the total mortgage balance, only 3.7% will mature in 2009. The mortgages coming due before the end of 2009 bear interest at a weighted average rate on maturity of 6.1%. For a further discussion of interest rate risk, please see "Risks and Uncertainties".

Segmented disclosure (including mortgages payable on income properties held for sale) by geographic location is provided as follows:

(in thousands of dollars)	March 31, 2009	December 31, 2008
Canada	**$2,079,972**	$2,106,767
United States	**1,078,319**	1,050,703
Total	**$3,158,291**	$3,157,470

Convertible Debentures

In June 2008, the REIT completed a public offering of $115 million convertible unsecured subordinated debentures, bearing interest at the annual contractual rate of 6.65% and an effective interest rate of 9.10%. The debentures mature on June 30, 2013, and interest is payable semi-annually on June 30 and December 31. Each debenture is now convertible into freely tradeable Stapled Units of the REIT at the holder's option at: (i) any time prior to the maturity date and (ii) the business day immediately preceding the date specified by the REIT for redemption of the debentures, at a conversion price of $23.11 per Stapled Unit, being a conversion rate of approximately 43.2713 units per $1,000 principal amount, subject to adjustment upon the occurrence of certain events in accordance with the Indenture governing the debentures.

As a result of the Plan of Arrangement, the REIT must deliver or cause to be delivered Stapled Units to the holders of the debentures if converted. The REIT has entered into a Support Agreement with Finance Trust whereby Finance Trust agreed to issue its units to converting unitholders if the convertible debt holders convert.

On redemption or at maturity of the debentures, the REIT may, at its option and subject to certain conditions, elect to satisfy its obligation to repay all or any portion of the principal amount of the debentures that are to be redeemed or that are to mature through the issuance of Stapled Units by way of issuing or causing to be issued a variable number of Stapled Units equal to the principal amount of the debentures that are to be redeemed or that are to mature divided by 95% of the then fair market value of the Stapled Units. The debentures may not be redeemed by the REIT on or before June 30, 2011. Thereafter, but prior to June 30, 2012, the debentures may be redeemed, in whole or in part, only if the current market price of a Stapled Unit is at least 125% of the conversion price. On or after June 30, 2012 and prior to the maturity date, the debentures may be redeemed by the REIT, in whole or in part, at a price equal to the principal amount plus accrued interest.

The REIT accounts for convertible debentures by valuing the holders' option to convert into Stapled Units and classifying such value as equity. The remaining value of the convertible debentures is classified as debt. Interest expense is recorded as a charge to income and is calculated at an effective rate with the difference between the coupon rate and the effective rate being credited to the debt component of the convertible debentures such that, at maturity, the debt component is equal to the face value of the then outstanding convertible debentures.

On issuance, the REIT recorded a liability of $103.7 million net of issue costs of $4.2 million, and equity, which represents the holders' option to convert the debentures into Stapled Units, of $6.8 million, net of issue costs of $0.3 million. As at March 31, 2009, the REIT's liability has increased to $105.3 million. The liability will continue to increase each quarter as the accretion amount increases quarterly over the term of the debentures.

Bank Indebtedness

The REIT has the following two facilities:

(i) A general operating facility limited to $296.6 million which is secured by a first charge over certain income properties, and can be drawn in either Canadian or U.S. dollars (with U.S. dollar loans being limited to a maximum Canadian equivalent of $100 million). The Canadian dollar portion of the debt bears interest at rates approximating the prime rate of a Canadian chartered bank, while the U.S. portion of the debt bears interest at LIBOR rates. At March 31, 2009 approximately $117.1 million was still available under this line. This facility is due on August 15, 2009.

The REIT may increase the general operating facility to a maximum amount of $300 million, subject to providing further properties as security.

(ii) A facility to finance and construct a distribution centre in Ajax, Ontario totalling $3.7 million (December 31, 2008 - $3.7 million). The REIT has outstanding letters of credit of $3.7 million (December 31, 2008 - $3.7 million) on this facility. The facility is due on demand.

Bank indebtedness increased by $18.4 million from $112.9 million at December 31, 2008 to $131.3 million at March 31, 2009. The change is primarily as a result of cash required for properties under development.

Intangible Liabilities

For all acquisitions subsequent to September 12, 2003, the acquisition cost is allocated to land, buildings, paving and equipment and intangible costs. The portion of the purchase price that is allocated to "below-market-value rents" is recorded as a liability on the REIT's balance sheet and is amortized over the related lease. This amount has decreased to $63.7 million at March 31, 2009 as compared to $64.3 million as at December 31, 2008 due to normal amortization incurred during the period.

The change in this liability in the future will be dependent upon the leases that are in place in future acquisitions and the rent in place as compared to market rents at the time of purchase of the related asset.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased by $32.3 million from $131.5 million at December 31, 2008 to $163.8 million at March 31, 2009. The change is mostly due to an increase in accruals and tenant inducements relating to properties under development and income properties. These accruals at March 31, 2009 totalled $68.1 million as compared to $48.8 million at December 31, 2008. There was an increase of $6.0 million of rents received in advance as compared to December 2008. The total interest accrued to date on the Boscov's Department Stores mortgages is $5.3 million (December 31, 2008 - $2.8 million). There is also a general increase in other payables and accruals relating to transactions occurring in the normal course of business operations.

Future Income Tax Liability

Due to the enactment of the SIFT rules on June 22, 2007, the REIT commenced recognizing future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax basis of its assets and liabilities, including those related to its subsidiary trusts, that are expected to reverse in or after 2011. The SIFT rules are not expected to apply to the REIT before 2011 as they provide a transition period for publicly traded trusts such as the REIT that qualified as SIFT trusts prior to November 1, 2006 provided the REIT does not at any time after December 15, 2006 exceed the normal growth guidelines released by the Department of Finance. In addition, the SIFT rules will not apply to an entity that qualifies for the real estate investment trust ("REIT") exemption. The REIT does not currently meet certain technical requirements for the REIT exemption. Management is of the view that it can make changes that are within its control, and restructure its investment in HRLP, in order to qualify for the REIT exemption prior to 2011. As the REIT currently does not qualify, GAAP requires the REIT to prepare the REIT's accounts on the basis that the new rules currently apply. Future income tax assets or liabilities are recorded using tax rates and laws expected to apply when the temporary differences are expected to reverse. The SIFT rules (as defined below under "Critical Accounting Estimates – Income Tax") resulted in the REIT including a future income tax liability of $137.9 million in the consolidated balance sheet at March 31, 2009, with a corresponding future income tax expense of $4.5 million reflected as a charge to consolidated earnings for the three months ended March 31, 2009 and a future income tax expense of $0.1 million reflected as a charge to other comprehensive income. Temporary differences expected to reverse in or after 2011 have been measured using a tax rate of 29.5% in 2011 and 28% thereafter.

Non-Controlling Interest

During November 2004, as part of the acquisition of substantially all of the 30% interest of the remaining properties in which the REIT acquired an initial 70% interest as part of its 1996 initial public offering the REIT issued 6,974,555 units to its subsidiary HRLP, which was set up to complete this transaction. The participating vendors exchanged their interest in these properties for 5,696,610 Class B units of HRLP as well as subscribing for an additional 1,277,945 Class B units of HRLP at the same time. These units are now exchangeable on a one for one basis for Stapled Units. During the year ended December 31, 2008, 1,536,990 Class B units were exchanged for Stapled Units.

As clarified by EIC-151, since these Class B units can be transferred without requirement and can be exchanged for Stapled Units, the aggregate outstanding amount at any point in time of the exchangeable Class B units of HRLP shall be recorded as a non-controlling interest on the REIT's financial statements until such time as these Class B units have been exchanged for Stapled Units. As Class B units are exchanged over time into Stapled Units, the conversion will result in a transfer to unitholders' equity and the non-controlling interest will be reduced accordingly.

Non-controlling interest decreased from $75.4 million at December 31, 2008 to $74.8 million at March 31, 2009 due to $1.0 million of distributions attributable to the non-controlling interest. In addition, net income of $0.4 million was attributable to non-controlling interest for both continuing and discontinued operations.

EQUITY

Unitholders' Equity

Unitholders' equity increased by $5.7 million between December 31, 2008 and March 31, 2009. The increase is due to net earnings for the period, proceeds received from the REIT's distribution reinvestment plan and direct unit purchase plan, the change in accumulated other comprehensive loss offset by distributions paid to unitholders.

The majority of the accumulated other comprehensive loss is made up of the net adjustment to the equity invested in U.S.Holdco with the REIT's debt being held in U.S. dollars currently acting as a natural hedge against its total investment in U.S. dollars.

LIQUIDITY AND CAPITAL RESOURCES

Funds from Operations and Adjusted Funds from Operations

Funds from operations ("FFO") and adjusted funds from operations ("AFFO") are not measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. FFO and AFFO should not be construed as alternatives to net earnings or cash provided by operations determined in accordance with GAAP as an indicator of the Trusts performance (see also "Non-GAAP Financial Measures"). However, both FFO and AFFO are operating performance measures which are widely used by the real estate industry (and in particular, by a number of other Canadian real estate investment trusts). The Trusts do not include any adjustment for realized or unrealized losses on foreign exchange in its calculation of FFO. The Trusts method of calculating FFO may differ from other issuers' methods and accordingly may not be comparable to similar measures presented by other issuers.

The use of FFO and AFFO, combined with the required GAAP presentations, have been presented for the purpose of improving the understanding of operating results of REITs by the investing public. Management believes that these non-GAAP financial measures are a meaningful measure of operating performance as they reject the assumption that the value of real estate investments diminishes predictably over time and they adjust for items included in GAAP net earnings that may not necessarily be the best determinants of the REIT's operating performance, such as gains or losses on the sale of, and provisions for impairment against long-lived income properties.

As FFO excludes depreciation, amortization, future income tax and gains and losses from property dispositions, it provides a performance measure that, when compared period over period, reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and realty taxes, acquisition activities and interest costs, and provides a perspective on financial performance.

Funds From Operations and Adjusted Funds from Operations	Three months ended March 31	
(in thousands of dollars except per unit amounts)	**2009**	2008
Net earnings	**$22,098**	$39,613
Add (deduct)		
Mortgage interest accrual on the Boscov properties	**2,341**	-
Depreciation and amortization	**32,353**	29,863
Impairment loss on income properties	**8,229**	-
Gain on sale of income properties	**(424)**	(14,407)
Future income taxes	**4,515**	1,783
Net earnings attributable to non-controlling interest	**407**	2,158
Operating income from discontinued operations	**(1,033)**	(3,393)
Funds from operations – continuing operations	**$68,486**	$55,617
Funds from operations – discontinued operations	**1,893**	3,748
Funds from operations	**$70,379**	$59,365
Add (deduct)		
Straight-lining of contractual rent	**(4,021)**	(4,208)
Amortization of above- and below-market rents	**300**	(176)
Amortization of mortgage premium	**(449)**	(477)
Unit-based compensation	**63**	-
Additions to deferred leasing costs	**(1,627)**	(1,202)
Additions to tenant inducements	**-**	(251)
Capital expenditures	**(122)**	(138)
Gain on foreign exchange	**(4,895)**	-
Adjusted funds from operations	**$59,628**	$52,913
Funds from operations per unit (basic – adjusted for conversion of non-controlling interest)	**$0.477**	$0.438
Funds from operations per unit (diluted)	**$0.477**	$0.436
Adjusted funds from operations per unit (basic - adjusted for conversion of non-controlling interest)	**$0.404**	$0.390
Adjusted funds from operations per unit (diluted)	**$0.404**	$0.388

The primary reason for the increase in funds from operations per unit for the three months ended March 31, 2009 as compared to the same period last year is due to the gain on foreign exchange along with the increased U.S. portfolio FFO of $2.2 million which was the result of a strengthening U.S. dollar and the FFO generated from three new income properties. These gains were offset by $2.3 million of interest on the convertible debentures in 2009, as opposed to nil in 2008, properties sold during 2008, the lost revenue from the properties tenanted by Boscov's Department Stores and unit dilution.

The following is a reconciliation of the REIT's adjusted funds from operations to funds from operations which in turn is reconciled to cash provided by operations.

	Three months ended March 31	
(in thousands of dollars)	**2009**	2008
Adjusted funds from operations	**$59,628**	$52,913
Straight-lining of contractual rent	**4,021**	4,208
Amortization of above- and below-market rents	**(300)**	176
Amortization of mortgage premium	**449**	477
Unit-based compensation	**(63)**	-
Additions to deferred leasing costs	**1,627**	1,202
Additions to tenant inducements	**-**	251
Capital expenditures	**122**	138
Gain on foreign exchange	**4,895**	-
Funds from operations	**$70,379**	$59,365
Funds from operations – discontinued operations	**(1,893)**	(3,748)
Operating income from discontinued operations	**1,033**	3,393
Change in other non-cash operating items	**4,774**	11,049
Rent amortization	**929**	314
Mortgage interest accrual on the Boscov properties	**(2,341)**	-
Other	**654**	546
Unrealized foreign exchange gain	**(4,915)**	-
Accretion of debt component of convertible debentures	**438**	-
Depreciation and amortization included within discontinued operations	**860**	355
Cash provided by operations	**$69,918**	$71,274

All items which are included in the above reconciliation of the Trusts adjusted funds from operations to funds from operations which in turn is reconciled to cash provided by operations are non-cash items which are included in the calculation of adjusted funds from operations and funds from operations but are not included in the determination of cash provided by operations.

Capital Resources

The cash provided by operations of $69.9 million for the three months ended March 31, 2009 represents the primary source of funds to pay cash distributions to unitholders totalling $26.5 million for the three months ended March 31, 2009.

In accordance with National Policy 41-201, the REIT is required to provide the following additional disclosure relating to cash distributions.

(in thousands of dollars)	**Three months ended March 31, 2009**	Year ended December 31, 2008	Year ended December 31, 2007
Cash provided by operating activities	**$69,918**	$235,122	$196,589
Net earnings (loss)	**$22,098**	97,706	(2,193)
Actual cash distributions paid or payable relating to the period	**26,549**	204,108	179,980
Distributions paid as a return of capital pursuant to the Plan of Arrangement	**-**	132,500	-
Total distributions paid	**26,549**	336,608	179,980
Excess of cash provided by operating activities over cash distributions paid	**43,369**	31,014	16,609
Shortfall of net earnings over cash distributions paid	**(4,451)**	(106,402)	(182,173)

For the three months ended March 31, 2009 and years ended December 31, 2008 and 2007, cash provided by operating activities exceeded cash distributions. Management expects this trend to continue.

Cash distributions have exceeded net earnings due to non-cash items which are deducted in determining net earnings. Non-cash items such as impairment losses, future income taxes, depreciation and amortization, while deducted for net earnings have no impact on cash available to pay current distributions. Effective January 1, 2009, the distribution on the Stapled Units was reduced from $1.44 to $0.72 per unit annually.

Proceeds from the issuance of securities and debentures together with proceeds on disposition of income properties have been used to fund acquisitions and capital expenditures of $0.1 million and properties under development of $52.7 million for the three months ended March 31, 2009.

Subject to market conditions, management expects to be able to meet all of the Trusts ongoing obligations and to finance short term development commitments through the issue of new securities, as well as by using conventional real estate debt, selling or refinancing other assets, short-term financing from the bank and the Trusts cash flow from operations. As at March 31, 2009, the Trusts are not in default or arrears on any of its obligations including distribution payments, interest or principal payments on debt and any debt covenant with the exception of the non payment of principal and interest for the seven Boscov's Department Stores mortgages following the non receipt of rental revenue. The REIT has handed over control of the properties to the mortgage company and is waiting for them to legally release the REIT's subsidiaries from their debt obligations.

Short-term bank financing has been provided by the same chartered bank since the REIT's inception. This general operating facility is secured by income properties and management believes this facility will continue to be made available in the future as it represents a typical or standard loan facility provided by numerous financial institutions in the industry. At March 31, 2009, approximately $117.1 million was still available under this facility.

The REIT is currently not contemplating any acquisitions and expects total acquisitions to decrease on a dollar basis in 2009 as compared to 2008.

Other than the Bow development which is described in greater detail under "Funding of Future Commitments", the following is a summary of material contractual obligations of the Trusts including payments due for the next 4.75 years and thereafter:

	Payments Due by Period				
Contractual Obligations (in thousands of dollars)	2009	2010-2011	2012-2013	2014 and thereafter	Total
Long-term debt [(1)]	$283,192	$298,877	$593,972	$1,978,776	$3,154,817
Convertible debentures	-	-	115,000	-	115,000
Total Contractual Obligations	$283,192	$298,877	$708,972	$1,978,776	$3,269,817

(1) There is a $5.8 million mortgage payable on one income property which has been sold and not included above. See "Mortgages and Amount Receivable" for further information.

The REIT has no material capital or operating lease obligations.

Funding of Future Commitments

The following table shows the budgeted costs for the Bow and actual costs to date. This budget is for the North Block Tower and parking on both the North and South Blocks.

(in thousands of dollars)	Budget	Costs incurred to date	Remaining Costs
Land	$60,804	$60,804	-
Financing costs	59,230	-	59,230
Capitalized interest on the REIT's costs as incurred	215,722	39,357	176,365
Soft costs	190,357	89,925	100,432
Hard costs	1,049,047	271,238	777,809
Recoveries and other income	(113,165)	(2,381)	(110,784)
Contingency	84,727	-	84,727
Budget/ cost incurred to date	1,546,722	458,943	$1,087,779
Less capitalized interest on the REIT's costs incurred	(215,722)	(39,357)	(176,365)
Total budget/ costs incurred to date less capitalized interest	$1,331,000	$419,586	$911,414

The chart below shows funds required and the projected source of funds for the 2009-2011 period.

Funds Required **(In millions of dollars)**	
To complete the Bow as per above	$911
Principal repayments of mortgages	279
Mortgage maturities not expected to be refinanced	35
	$1,225
Projected Source of Funds **(In millions of dollars)**	
Construction facility - "Subsequent Events"	$425
Issuance of 11.5% debentures to Fairfax (see "Private Placement" below)	200
Cash retained from operations due to a reduction in distributions	220
Available cash and undrawn credit facilities	133
Bell Phase 3 mortgage payable and collection of mortgages receivable	160
Land and property sales	175
	$1,313

While the REIT has identified projected sources of funds from which it expects to satisfy its anticipated cash flow requirements as described above, there is no assurance that such funds will be available to the REIT as the availability of any such funds will be subject to market conditions and other factors beyond the REIT's control. Please see "Forward-Looking Disclaimer" and "Risks and Uncertainties".

The REIT's capacity (as determined in the manner below) to fund future acquisitions, capital expenditures and commitments was in excess of $1,500 million as at March 31, 2009. This represented the amount that could be funded by the REIT from debt, subject to market availability, before the REIT reached its maximum debt limitation of 65% of debt to its GBV of assets.

PRIVATE PLACEMENT

On December 23, 2008, the REIT entered into an agreement (the "Private Placement Agreement") with Fairfax Financial Holdings Limited ("Fairfax"), pursuant to which, among other things and subject to certain conditions precedent, Fairfax agreed to purchase $200 million of debentures bearing interest at a rate of 11.5% (the "Fairfax Debentures") and pursuant to which the REIT agreed to grant to Fairfax warrants to purchase 28,571,429 Stapled Units at an exercise price of $7.00 per Stapled Unit (or net proceeds of approximately $200 million if exercised in full).

The Fairfax Debentures mature on April 24, 2014. The Fairfax Debentures are not redeemable on or before April 24, 2013, except upon the satisfaction of certain conditions upon the occurrence of a change of control. After April 24, 2013 and prior to the maturity date thereof, the Fairfax Debentures are redeemable in whole or in part at the option of the REIT at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. The Fairfax Debentures are subordinated to the senior indebtedness of the REIT, but will rank pari passu with all other unsecured indebtedness of the REIT and for greater certainty, no unsecured indebtedness shall rank prior to the Fairfax Debentures. Upon a change of control, the holders of the Fairfax Debentures have the right to require the REIT to purchase the Fairfax Debentures at 101% of the principal amount plus accrued and unpaid interest. The Fairfax Debenture indenture contains similar covenants, events of defaults and remedies as the trust indenture governing the REIT's outstanding convertible debentures and also provides that subject to certain exceptions, the REIT will not change its 65% maximum limit for the total indebtedness to gross book value ratio of the REIT without the consent of the holders of the Fairfax Debentures, that a default under the Bow construction facility is an event of default under the Fairfax Debentures, and that the REIT will not extend the maturity date of any amount owing under the Bow construction facility unless it otherwise satisfies any stipulated condition under the Fairfax Debenture indenture.

The agreement was conditional upon, among other things, the occurrence of the following events being completed by closing: (i) receipt by the REIT of construction financing commitments of no less than $400 million for the development of "The Bow"; (ii) monthly unitholder cash distributions per Stapled Unit being no greater than $0.06 maintained until closing; and (iii) TSX approval. As at March 31, 2009, these conditions had not been satisfied.

On April 24, 2009, following satisfaction of all conditions to the Private Placement Agreement, Fairfax and its subsidiaries purchased $200 million of the Fairfax Debentures and acquired warrants to purchase 28,571,429 Stapled Units at an exercise price of $7.00 per Stapled Unit. Such warrants are exercisable until April 24, 2014.

OFF-BALANCE SHEET ITEMS

The REIT has certain co-owners or partners in various projects. As a rule the REIT does not provide guarantees or indemnities for these co-owners pursuant to property acquisitions because should such guarantees be provided, recourse would be available against the REIT in the event of a default of the borrowers, in which case the REIT would have a claim against the underlying real estate investment. However, in certain circumstances, where absolutely required but subject to compliance with the REIT's Declaration of Trust and also, when management has determined that the fair value of the borrower's investment in the real estate investment is greater than the mortgages payable for which the REIT has provided guarantees, such guarantees will be provided.

At March 31, 2009, such guarantees amounted to $51.1 million, expiring between 2011 and 2017 and no amount has been provided for in the consolidated financial statements for these items. These amounts arise where the REIT has guaranteed a co-owner's share of the mortgage liability. The REIT, however, customarily guarantees or indemnifies the obligations of its nominee companies which hold separate title to each of its properties owned.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Where appropriate, the REIT also uses forward contracts to lock in lending rates on certain anticipated mortgages. This strategy provides certainty in the rate of interest on borrowings when the REIT is involved in transactions that close further into the future than during the normal timeframe of a transaction. At March 31, 2009, the REIT had no forward contracts in place.

SECTION III

SUMMARY OF QUARTERLY RESULTS

(unaudited) (in thousands of dollars except per unit amounts)	**March 31, 2009**	December 31, 2008[1]	September 30, 2008[1]	June 30, 2008[1]
Rentals from income properties	$158,152	$153,161	$148,880	$150,471
Mortgage interest and other income	1,824	843	1,018	643
Net property operating income	30,833	26,779	26,305	27,899
Net earnings (loss) from continuing operations	20,695	4,985	(27,672)	20,294
Net earnings (loss) per unit from continuing operations				
(basic)	0.15	0.04	(0.20)	0.15
(diluted)	0.14	0.03	(0.20)	0.15
Net earnings (loss)	$22,098	$45,826	($20,706)	$32,973
Net earnings (loss) per unit				
(basic)	0.16	0.33	(0.15)	0.25
(diluted)	0.15	0.32	(0.15)	0.25

	March 31, 2008[1]	December 31 2007[1]	September 30, 2007[1]	June 30 , 2007 [1]
Rentals from income properties	$147,299	$149,600	$143,427	$142,778
Mortgage interest and other income	596	555	769	891
Net property operating income	27,860	27,271	26,151	25,040
Net earnings (loss) from continuing operations	22,730	43,140	20,622	(104,931)
Net earnings (loss) per unit from continuing operations				
(basic)	0.18	0.34	0.16	(0.85)
(diluted)	0.18	0.34	0.16	(0.85)
Net earnings (loss)	$39,613	$48,691	$23,860	($102,840)
Net earnings (loss) per unit				
(basic)	0.31	0.38	0.19	(0.83)
(diluted)	0.31	0.38	0.19	(0.83)

(1) Certain items for all periods have been reclassified to conform with the presentation adopted in the current period.

Changes to the quarterly financial information are not reflective of seasonality or cyclicality but generally from retroactive changes in accounting policy, new property acquisitions, dispositions and income taxes.

SECTION IV

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Trusts financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. The Trusts' financial statements have been prepared in accordance with Canadian GAAP.

Management believes the policies which are most subject to estimation and judgements are outlined below. For a detailed description of these and other accounting policies refer to note 2 of the December 31, 2008 audited combined financial statements of the Trusts.

Impairment of Assets

The REIT is required to write down to fair value any of its income properties that were determined to have been impaired. The analysis required is dependent upon a review of estimated future cash flows from operations over the anticipated holding period. This review involves subjective assumptions of, among other things, estimated occupancy and rental rates, all of which can affect the ultimate value of the property. In the event these factors result in a carrying value that exceeds the sum of future undiscounted cash flows expected to result from the ongoing use and ultimate residual value of the properties, an impairment would be recognized. In the first quarter of 2009, an impairment of $8.2 million was recognized with regards to the property of which Circuit City is the tenant. During the third quarter of 2008, the REIT recognized an impairment of $50.2 million with regard to the properties leased by Boscov's Department Stores. During the fourth quarter of 2008, the REIT recognized an impairment of a further $3.0 million with regards to the properties leased by Boscov's Department Stores. This change was primarily due to an increase in foreign exchange rates for Q4 2008. In addition, upon the expiry of an option to purchase the remaining interest in the Neways office building, an additional $0.4 million was written off during Q4 2008.

The REIT also evaluates the fair value of mortgages receivable to determine whether any impairment provisions are required. Impairment is recognized when the carrying value of the mortgage receivable will not be recovered as determined by the economic value of the underlying security and/or the financial covenant of the issuer of the security. No impairments of mortgages receivable were recorded during 2009 or 2008.

Depreciation of Income Properties

On the acquisition of a property, a significant portion of the cost is allocated per management's determination to the building component of the property. In addition, the REIT is required to assess the useful lives of its income properties in order to determine the amount of building depreciation to record on a quarterly and annual basis.

The REIT depreciates its income properties and building improvements on a straight-line basis over their estimated useful lives. In the event the allocation to either the building or paving and equipment component is inappropriate or the estimated useful life of the properties are not correct, the amount of depreciation expensed quarterly and annually, which affects the REIT's future net earnings might not be appropriate.

Property Acquisitions

For acquisitions of properties initiated on or after September 12, 2003, the CICA has issued guidance for accounting for operating leases assumed in connection with these acquisitions. Through management's judgment and estimates, the purchase price must be allocated to land site improvements, building, the above- and below-market value of in-place operating leases, the fair value of tenant improvements, in-place leasing costs and the value of the relationship with the existing tenants.

These estimates will impact rentals from income properties, depreciation expense and amortization expense recorded on both a quarterly and annual basis.

Income Tax

On June 22, 2007, legislation relating to the federal income taxation of a SIFT, received royal assent (the “SIFT Rules”). A SIFT includes certain publicly-listed or traded partnerships and trusts and generally includes an income trust. Management of the REIT believes that the REIT currently meets the definition of a SIFT. Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing the SIFT’s taxable income, and the SIFT will be subject to tax on an amount equal to the amount of such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to such tax.

The REIT uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the date of enactment or substantive enactment.

Pursuant to the terms of the Finance Trust Declaration of Trust, the only properties which Finance Trust is permitted to invest in are U.S. Holdco Notes, and certain cash and cash equivalents, none of which constitutes non-portfolio property for purposes of the Tax Act, provided Finance Trust does not at any time carry on a business in Canada. It follows that Finance Trust will not be a SIFT trust for purposes of the Tax Act and will not be subject to tax under the SIFT Rules.

Tax Consequences to U.S. Holders

Finance Trust qualifies as an investment trust that is classified as a grantor trust for U.S. federal income tax purposes under Treasury Regulation section 301.7701-4(c) (a ‘‘Fixed Investment Trust’’) and section 671 of the Code. In general, an investment trust will qualify as a Fixed Investment Trust if: (i) the trust has a single class of ownership interests, representing undivided beneficial interests in the assets of the trust; and (ii) there is no power under the trust agreement to vary the investment of the holders. If Finance Trust is a Fixed Investment Trust, then it will generally be disregarded for U.S. federal income tax purposes, with the result that the holders of Finance Trust units will be treated as owning directly their *pro rata* shares of all of the Finance Trust assets (i.e. primarily the U.S. Holdco Notes). Moreover, all payments made on the U.S. Holdco Notes will be treated as payments made directly to the holders of the Finance Trust units in proportion to their interest in Finance Trust.

Provided that Finance Trust qualifies as a Fixed Investment Trust and the U.S. Holdco Notes are respected as debt for U.S. federal income tax purposes, payments of principal and interest on the U.S. Holdco Notes that are attributable to U.S. holders will be treated as payments directly to the U.S. holders. Interest on the U.S. Holdco Notes will generally be taxable to U.S. holders as ordinary income at the time it is paid or accrued and will be subject to U.S. federal taxation at a maximum marginal rate of 35%. If the U.S. Holdco Notes were treated as equity rather than debt for U.S. federal income tax purposes, then the stated interest on the U.S. Holdco Notes would be treated as a distribution with respect to stock.

Additionally, there can be no assurance that the Internal Revenue Service will not challenge the determination that the interest rate on the U.S. Holdco Notes represents an arm’s length rate.

CHANGES TO SIGNIFICANT ACCOUNTING POLICIES FOR 2009

Effective January 1, 2009, the Trusts adopted the new recommendation of The Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064, Goodwill and Intangible Assets, on a retroactive basis by adjusting the prior year. This new section replaces Section 3062, Goodwill and Other Intangible Assets, and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of Section 3064 had no impact on Finance Trust.

Commencing January 1, 2009, the REIT no longer defers capital cost expenditures recoverable from its tenants and no longer records the amortization of these deferred expenditures over the period which revenue is collected from tenants. This change requires the REIT to capitalize capital expenditures recoverable from its tenants and amortize it over the useful life of the asset. If the capitalization criteria is not met, the REIT expenses the full amount in the period incurred.

The adoption by the REIT of the new standards require retroactive application to its 2008 quarterly and annual combined financial statements on January 1, 2009 as follows:

Balance Sheet

Impact of restatement as at December 31, 2008	Increase (decrease)
Income properties	$9,142
Deferred expenses	(19,220)
Assets	(10,078)
Non-controlling interest	(430)
Opening accumulated net earnings as at January 1, 2008	(8,824)
Net earnings for the year ended December 31, 2008	(824)
Unitholders' Equity	(9,648)
	($10,078)

Statement of Earnings

	For the three months ended				
Impact of restatement increase/ (decrease)	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	For the year ended December 31, 2008
Property operating costs	$633	$562	$1,177	$740	$3,112
Depreciation and amortization	(430)	(509)	(629)	(501)	(2,069)
Net earnings from discontinued operations	-	138	-	81	219
Net earnings	(203)	85	(548)	(158)	(824)
Net earnings per unit – basic and diluted	-	-	-	-	-

There was no impact on the statement of cash flows as the amounts adjusted only impacts items within cash provided by operations.

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is to be applied retrospectively without adjustment of prior periods in interim and annual financial statements for periods ending on or after January 20, 2009. The Trusts adopted this recommendation in their fair value determinations effective January 1, 2009. The adoption of this guidance did not have any material effect on the Trusts results, financial position or cash flows.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Canadian Accounting Standards Board has confirmed that the use of IFRS, as issued by the International Accounting Standards Board ("IASB"), will replace Canadian Accounting Standards effective January 1, 2011. The Trusts are in the early stages of developing a conversion plan to transition financial reporting to IFRS as issued by the International Accounting Standards Board ("IFRS-IASB"). Accordingly, at this time, the Trusts cannot quantify the impact that the adoption of IFRS will have on the classification or valuation of the Trust's combined financial statements.

The Canadian Securities Administrators issued Staff Notice 52-321, *Early Adoption of International Financial Reporting Standards*, which provides issuers with the option to early adopt IFRS effective January 1, 2009. The REIT did not early adopt these standards on January 1, 2009.

Canadian GAAP will be fully converged with IFRS-IASB through a combination of two methods: first, as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the publicly accountable enterprises' transition date to IFRS-IASB; and secondly, standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the publicly accountable enterprises' transition date to IFRS-IASB. The IASB currently has projects underway that are expected to result in new pronouncements that continue to evolve.

Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an impact on contractual commitments involving GAAP based clauses (including debt covenants), and performance metrics. Accordingly, the Trusts implementation plan will include measures to provide extensive training to key finance personnel, to review relevant contracts and agreements and to increase the level of awareness and knowledge amongst management, the Board of Trustees, the audit committee and investors.

The following provides a summary of the Trusts IFRS Implementation Plan and Status of our activities:

Initial Assessment Phase

This phase includes the identification of significant differences between existing Canadian GAAP and IFRS-IASB at a high level as relevant to the Trusts. Based upon the current state of IFRS-IASB, this phase identified a modest number of topics that may possibly impact the Trusts financial results and/or the necessary effort to make the transition to IFRS-IASB. Targeted training and communication activities, leveraging both internal and external resources, are occurring during this phase. The Trusts are currently finalizing their initial assessment phase, with activities in this phase planned for substantial completion by Q3 2009**.**

Detailed Assessment Phase

Building upon the assessment performed in the Initial Assessment Phase, this phase will include:

- identification, evaluation and selection of accounting policies necessary for the Trusts to change over to IFRS-IASB;
- identification of the business impacts resulting from the identified accounting differences. Business impacts to be considered in the Trusts project plan are: business units, control processes, information technology, unitholders, regulatory matters and others as identified during this phase;
- assessment of IFRS 1 elections. This aspect of the project plan will follow the detailed assessment of the financial statement items and will be revisited periodically throughout the project;
- an initial training analysis and information systems impact analysis are also components of this phase, and are currently being documented.

It is expected that detailed assessment phase will progress from Q3 2009 through to Q2 2010.

Design Phase

The Design Phase will integrate the recommendations from the Detailed Assessment Phase into the REIT's underlying financial systems and processes that are necessary for the REIT to change over to IFRS-IASB. In addition, the Trusts will have designed business process changes and developed detailed training programs. Based on current timeline, the Design Phase is expected be completed during Q3 2010.

Testing & Implementation Phase

It is expected that during 2010, the Trusts will be testing their IFRS-IASB systems, processes, financial statements, notes, policies, internal controls and internal reporting throughout the period in preparation of the REIT's conversion date of January 1, 2011.

Status of Convergence Plan

Currently, impact assessment is underway and progressing according to plan.

The Trusts combined financial performance and financial position as disclosed in the current GAAP financial statements may be significantly different when presented in accordance with IFRS.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Trusts management, including the CEO and CFO, does not expect that the Trusts controls and procedures will prevent or detect all misstatements due to error or fraud. Due to the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute assurance, that all control issues and instances of fraud or error, if any, within the Trusts have been detected. The Trusts are continually evolving and enhancing their systems of controls and procedures.

No changes were made to the design of the Trusts internal control over financial reporting during the three months ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Trusts internal control over financial reporting.

The financial statements and MD&A were reviewed by the respective audit committees and the Board of Trustees, which approved them prior to their publication.

At March 31, 2009, the CEO and CFO of the Trusts have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Trusts is made known to the CEO and CFO and have designed internal controls over financial reporting to provide reasonable assurance regarding the liability of financial reporting and preparation of financial statements in accordance with GAAP.

SECTION V

RISKS AND UNCERTAINTIES

All income property investments are subject to a degree of risk and uncertainty. They are affected by various factors including general market conditions and local market circumstances. An example of general market conditions would be the availability of long-term mortgage financing whereas local conditions would relate to factors affecting specific properties such as an oversupply of space or a reduction in demand for real estate in a particular area. Management attempts to manage these risks through geographic, type of asset and tenant diversification in the REIT's portfolio. The major risk factors are outlined below, and in the REIT's Annual Information Form.

Unit Prices

Publicly traded trust units will not necessarily trade at values determined solely by reference to the underlying value of trust assets. Accordingly, the Stapled Units may trade at a premium or a discount to the underlying value of the assets of the REIT and Finance Trust. Investors in Stapled Units will be subject to all of the risks of an investment in units of Finance Trust and of an investment in units of the REIT. Holders of Stapled Units should consult the Management's Discussion and Analysis of Finance Trust and the REIT and specifically the risk factors therein. See also "Forward-Looking Disclaimer".

One of the factors that may influence the market price of the Stapled Units is the annual yield on the Stapled Units. Accordingly, an increase in market interest rates may lead investors in Stapled Units to demand a higher annual yield which could adversely affect the market price of Stapled Units. In addition, the market price for Stapled Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of the REIT and/or Finance Trust.

Availability of Cash for Distributions

The Trusts current distribution policy is to pay a monthly cash distribution such that the aggregate monthly distribution per Stapled Unit is 6 cents. As the monthly cash distribution paid by Finance Trust fluctuates monthly, the monthly cash distribution paid by the REIT will also fluctuate in order to result in an aggregate monthly cash distribution of 6 cents per Stapled Unit. Although the Trust intends to make distributions of its available cash to unitholders in accordance with its distribution policy, these cash distributions may be reduced or suspended. The actual amount distributed by the REIT will depend on numerous factors including monthly cash distributions paid by Finance Trust, capital market conditions, the financial performance of the properties, the REIT's debt covenants and obligations, its working capital requirements, its future capital requirements, its development commitments and fluctuations in interest rates. On April 22 2009, the REIT secured a construction facility, the terms of which provide, among other things, that distributions (other than certain unit distributions) cannot exceed the lesser of (i) $0.72 per Stapled Unit and (ii) 60% of funds from operations (as defined for such purpose). Distributable Cash may exceed actual cash available to the REIT from time to time because of items such as principal repayments on debt, tenant allowances, leasing commissions and capital expenditures. The Trusts may be required to use part of their debt capacity in order to accommodate any or all of the above items. The market value of Stapled Units may decline significantly if the REIT and/or Finance Trust suspends or reduces distributions. The REIT may reduce distributions if the trustees anticipate a cash shortfall and determine that such a reduction would be in the best interests of the REIT.

Development and Financing Risk Relating to The Bow Development

The REIT entered into agreements to develop the Bow consisting of approximately 2.0 million square foot office and retail complex in Calgary. The north and south block development budgeted to cost approximately $1.5 billion, are pre-leased to EnCana Corporation for an initial term of approximately 25 years. Construction commenced during the spring of 2007 and is expected to be completed in 2012. The REIT is currently bearing the risk for construction overruns and project delays as the REIT does not have a fixed price contract for the entire project cost. To mitigate this, the REIT has entered into fixed price contracts amounting to approximately 70% of the hard cost budget. The REIT is also at risk for interest rate fluctuations on this project during the construction period. To mitigate this risk, the REIT entered into an interest rate swap which is intended to limit the interest rate to an effective annual rate of 6.9%.

The REIT was able to secure a $425 million construction facility subsequent to March 31, 2009 The agreements and indentures governing indebtedness of this construction facility contain certain covenants and conditions applicable to the REIT, including without limitation, those requiring the REIT to maintain, at all times on a combined basis with Finance Trust, the following financial ratios (i) indebtedness to gross asset value of not greater than 0.65:1.0; (ii) debt service coverage of not less than 1.20:1.0 and (iii) unitholders equity of not less than the sum of $1.350 million plus 75% of net cash proceeds received in connection with any equity offering after April 24, 2009. In addition, the REIT is required to have not less than $906 million of cash equity being invested by the REIT and to have in place a committed revolving credit facility of not less than $300 million (subject to reduction to $200 million in certain circumstances), and imposing on the REIT certain restrictions including without limitation regarding: the disposition of the Bow project, lands related to the Bow, or any other properties or assets in excess of certain thresholds; the creation of liens or granting of negative pledges; creation or incurrence of debt; the making of distributions; the purchase or redemption of securities; the entering into of any merger or similar transaction with any person; changes of a fundamental nature (including senior management, business objectives, purposes or operations, capital structure, constating documents, and subordinated debt); the cancellation or waiver of material contracts; the making of any investment in excess of certain thresholds; the repayment or repurchase of any subordinated indebtedness; the involvement of other real estate development or construction projects in excess of certain thresholds; and changes to the Bow project budget. Included in the construction facility, the terms of which provide, among other things, that distributions (other than certain unit distributions) cannot exceed the lesser of (i) $0.72 per Stapled Unit and (ii) 60% of funds from operations (as defined for such purpose). As a result, the REIT is limited by such covenants and restrictions.

Liquidity Risk

Real estate investments are relatively illiquid. This fact will tend to limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If for whatever reason, liquidation of assets is required, there is a risk that sale proceeds realized might be less than the current book value of the REIT's investments or that market conditions would prevent prompt disposition of assets.

Credit Risk and Tenant Concentration

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. Management has diversified the REIT's holdings so that it owns several categories of properties (office, industrial and retail) and acquires properties throughout Canada and the United States. In addition, management ensures that no tenant or related group of tenants, other than investment grade tenants, account for a significant portion of the cash flow. The only tenants which account for more than 5% of the rentals from income properties of the REIT are Bell Canada, TransCanada PipeLines Limited, Telus Communications and Bell Mobility. Each of these companies that have a public debt rating is rated with at least a BBB rating by a recognized rating agency.

The following table illustrates the REIT's 20 largest tenants (based on estimated future annualized gross revenue excluding the straight lining of contractual rent increases and discontinued operations) and the weighted average term remaining on their leases as at April 1, 2009:

	Tenant	% of rentals from income properties	Number of Locations	REIT owned sq.ft. (in 000's)	Lease term to maturity (years)
1.	Bell Canada	11.4	4	1,745	16.5
2.	TransCanada Pipelines Limited	6.8	2	950	12.0
3.	Telus Communications	5.5	2	943	14.2
4.	Bell Mobility	5.3	2	775	16.7
5.	Rona Inc.	3.8	15	2,261	10.8
6.	Versacold Logistics Canada Inc.	3.3	12	1,733	17.8
7.	Canadian Tire Corp.	3.2	4	2,189	17.5
8.	Royal Bank of Canada	3.1	4	476	3.5
9.	Lowes Companies Inc.	2.7	11	1,435	10.0
10.	Nestle USA	2.2	3	2,168	8.5
11.	Shell Oil Products	2.0	18	249	13.4
12.	Marsh Supermarkets	1.7	9	548	17.7
13.	Purolator Courier Ltd.	1.6	12	1,071	12.2
14.	Nestle Canada Inc.	1.6	1	170	10.5
15.	Finning International Inc.	1.5	16	893	13.1
16.	Public Works of Canada	1.4	3	238	7.5
17.	Hudson's Bay Company	1.1	3	937	9.4
18.	BJ's Wholesale Club Inc.	1.1	4	452	13.1
19.	Sobey's Inc.	1.0	10	339	12.8
20.	Sony Pictures Entertainment Inc.	1.0	1	172	15.2
	Total	**61.3%**	**136**	**19,744**	

Interest Rate and Financing Risk

The REIT is exposed to interest rate risk on its notes payable due to the volatility of variable interest rates. The interest rate on the U.S. Holdco Notes is adjusted monthly and is equal to the then-prevailing ten-year U.S. treasury note rate plus 8% per annum. The floor interest rate of 8% mitigates the effect of a change in short-term market interest rates while the floating component linked to the ten-year U.S. treasury rate results in decreased earnings when the short-term market interest rate increases.

The REIT is exposed to financing risk on maturing mortgages, bank indebtedness and interest rate risk on its borrowings. It minimizes this risk by obtaining long-term, fixed rate debt to replace short-term floating rate borrowings. At March 31, 2009, the percentage of fixed rate debt to total debt was 96.1% (December 31, 2008 – 96.7%). In addition, the REIT matches the terms to maturity of its mortgages on specific properties to the corresponding lease terms to maturity as closely as possible. At March 31, 2009, the weighted average term to maturity of the mortgages was 9.0 years (December 31, 2008 - 9.3 years) compared to the remaining average lease term of 11.3 years (December 31, 2008 - 11.5 years). Only 3.7% of total mortgage principal will mature before the end of 2009. The REIT also minimizes financing risk by restricting total debt (subject to certain exceptions) to 65% of aggregate assets as well as by obtaining non-recourse debt wherever possible. At March 31, 2009, the debt to GBV ratio (as per the Declaration of Trust) was 54.2% (December 31, 2008 – 54.7%) while the percentage of non-recourse debt to total debt was 51.8% (December 31, 2008 – 51.4%).

Tax Risk

The REIT currently qualifies as a mutual fund trust for Canadian Income Tax purposes. On June 22, 2007, the SIFT rules received royal assent. A SIFT includes certain publicly-listed or traded partnerships and trusts and generally includes an income trust. Management of the REIT believes that the REIT currently qualifies as a SIFT. Under the SIFT rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation unless the REIT satisfies the REIT exemption. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

Under the SIFT rules, the new taxation regime will not apply to a REIT that meets prescribed conditions relating to the nature of its income and investments. The REIT does not currently meet certain technical requirements for the REIT exemption. The REIT intends to restructure to qualify for the REIT exemption prior to 2011. However if the REIT is unable to restructure, commencing in 2011, the REIT will become subject to tax on distributions of certain income.

The REIT operates in the United States through U.S.Holdco which is capitalized with equity provided by the REIT and debt owed to Finance Trust. As at March 31, 2009, U.S. Holdco owed approximately USD $125.6 million to Finance Trust which is eliminated on the combined financial statements.

Prior to the Plan of Arrangement, the REIT provided debt financing to U.S. Holdco which paid interest of approximately USD $16.3 million for the year ended December 31, 2008 (December 31, 2007 – USD $21 million) on such debt. In determining income for U.S. tax purposes, U.S. Holdco was subject to possible limitations on the deductibility of interest paid to the REIT. Section 163(j) of the Internal Revenue Code (the "Code") applied to defer U.S. Holdings' deduction of interest paid on the debt to the REIT in years that (i) the debt to equity ratio of U.S. Holdings exceeded 1.5:1, and (ii) the net interest expense exceeds an amount equal to 50% of its "adjusted taxable income" (generally, earnings before interest, taxes, depreciation, and amortization). For the year ended December 31, 2008, USD $12.5 million of the USD $16.3 million interest expense (December 31, 2007 - U.S. $14 million of the USD $21 million interest expense) was disallowed by Section 163(j) of the Code, but such disallowance had no cash effect on U.S. Holdco. If the REIT provided debt financing to U.S. Holdco and if this limitation applied to interest paid, depending on the facts and circumstances and the availability of net operating losses to U.S. Holdco (which are subject to normal assessment by the Internal Revenue Service), the U.S. federal income tax liability of U.S. Holdings could increase. In such case, the amount of income available for distribution by the REIT to its unitholders could be reduced.

A foreign corporation will be classified as a passive foreign investment company ("PFIC") for United States federal income tax purposes if either (i) 75% or more of its gross income is passive income or (ii) on average for the taxable year, 50% or more of its assets (by value) produce or are held for the production of passive income. The properties of the REIT are managed by a third party rather than directly by its own employees. Although the REIT's officers and employees oversee the activities of the manager, it is likely that the REIT will be characterized as a PFIC for U.S. federal income tax purposes, though this conclusion is uncertain. In the absence of certain elections being made by a U.S. holder of REIT Units, any distributions in respect of the REIT Units which exceed 125% of the average amount of distributions in respect of such REIT Units during the preceding three years, or, if shorter, during the preceding years in the U.S. holder's holding period ("excess distributions") and any gain on a sale or other disposition of the REIT Units will be treated as ordinary income and will be subject to special tax rules, including an interest charge. US holders should consult with their own tax advisors regarding the implications of these rules and the advisability of making one of the applicable PFIC elections, taking into account their particular circumstances.

In compliance with U.S. Treasury Department Circular 230, which provides rules governing certain conduct of U.S. tax advisors giving advice with respect to U.S. tax matters, please be aware that: (i) any U.S. federal tax advice contained herein is not intended to be used and cannot be used by the reader for the purpose of avoiding penalties that may be imposed under the Code; (ii) such advice was prepared in the expectation that it may be used in connection with the promotion or marketing (within the meaning of U.S. Treasury

Department Circular 230) of Stapled Units; and (iii) prospective investors should seek advice based on their particular circumstances from an independent tax advisor.

Ability to Access Capital Markets

As the Trusts distributes a substantial portion of their income to unitholders, the Trusts ability to access the capital markets through equity issues and forms of secured or unsecured debt financing will affect the operations of the Trusts. Such financing may be available only on disadvantageous terms, if at all. If financing is not available on acceptable terms, further acquisitions or ongoing development projects may be curtailed and cash available for distributions or to fund future commitments may be adversely affected.

Dilution

The number of units the Trusts are authorized to issue is unlimited. The Trustees have the discretion to issue additional Units in certain circumstances, including under the Unit Option Plan. Any issuance of Units may have a dilutive effect on the investors of Units.

Lease Rollover Risk

Lease rollover risk arises from the possibility that the REIT may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants upon lease expiry. Management's strategy is to sign creditworthy tenants to leases that are long-term in nature which assists in the REIT's attempt to fulfill its primary goal of maintaining a predictable cash flow. The REIT has relatively few short to medium term lease rollovers which is illustrated in the previously disclosed table showing that leases representing only 14.0% of the REIT's total square footage expires by the end of 2013.

Construction Risks

It is likely that, subject to compliance with the Declaration of Trust, the REIT will be involved in various development projects. The REIT's obligations in respect of properties under construction, or which are to be constructed, are subject to risks which include (i) the potential insolvency of a third party developer (where the REIT is not the developer); (ii) a third party developer's failure to use advanced funds in payment of construction costs; (iii) construction or other unforeseeable delays; (iv) cost overruns; (v) the failure of tenants to occupy and pay rent in accordance with existing lease agreements, some of which are conditional; (vi) the incurring of construction costs before ensuring rental revenues will be earned from the project; and (vii) increases in interest rates during the period of the development. See also "Development and Financing Risk relating to the Bow Development" above. Management strives to mitigate these risks where possible by entering into fixed price construction contracts with general contractors and by attempting to obtain long-term financing as early as possible during construction.

Debentures

The likelihood that purchasers of the REIT's debentures will receive payments owing to them under the terms of the debentures will depend on the financial health of the REIT and its creditworthiness. In addition, the debentures are unsecured obligations of the REIT and are subordinate in right of payment to all the REIT's existing and future senior indebtedness. Therefore, if the REIT becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the REIT's assets will be available to pay its obligations with respect to the debentures only after it has paid all of its senior and secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the debentures then outstanding.

The debentures are also effectively subordinate to claims of creditors (including trade creditors) of the REIT's subsidiaries except to the extent the REIT is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The indentures governing such debentures do not prohibit or limit the ability of the REIT or its subsidiaries to incur additional debt or liabilities (including senior indebtedness) or to make distributions, except, in respect of distributions, where an event of default has occurred and such default has not been cured or waived. The indentures do not contain any provision specifically intended to protect holders of debentures in the event of a future leveraged transaction involving the REIT.

Mezzanine Financing Credit Risk

The REIT is also exposed to credit risk as a lender on the security of real estate in the event that a borrower is unable to make the contracted payments. Such risk is mitigated through credit checks and related due diligence of the borrowers and through careful evaluation of the worth of the underlying assets. Risk is further mitigated by the REIT's investment guideline of only providing construction financing after 70% of the project has been pre-leased.

Currency Risk

The REIT is exposed to foreign exchange fluctuations as a result of ownership of assets in the United States and the rental income earned from these properties. In order to mitigate the risk, the REIT's debt on these properties is also held in U.S. dollars to act as a natural hedge.

Environmental Risk

The REIT is subject to various Canadian and U.S. laws, which could cause the REIT, as an owner and operator of real property, to become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remediate any environmental issue may affect the REIT's ability to sell or finance the affected asset and could potentially also result in claims against the REIT.

The REIT has formal environmental policies in place to manage any exposure. The REIT's guidelines mandate the carrying out of environmental audits and inspections before a property is purchased. Also, the majority of its leases specify that tenants will conduct their businesses in accordance with environmental regulations and be responsible for liabilities arising out of any infractions. In support thereof, tenants' premises are periodically inspected for environmental issues, among other things, to ensure adherence where applicable. Finally, the REIT carries appropriate insurance coverage to cover any environmental mishaps.

Redemption Right

Unitholders are entitled to have their units redeemed at any time on demand. It is anticipated that this redemption right will not be the primary mechanism for Unitholders to liquidate their investments. The aggregate redemption price payable by the REIT is subject to limitations. The notes which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange, no established market is expected to develop for such notes and they may be subject to resale restrictions under applicable securities laws.

Unitholder Liability

The REIT's Declaration of Trust for both Trusts provide that unitholders will have no personal liability for actions of the Trusts and no recourse will be available to the private property of any Unitholder for satisfaction of any obligation or claims arising out of a contract or obligation of the Trusts. The Declarations of Trust provide that this lack of unitholder liability, where possible, must be provided for in certain written instruments signed by the REIT. In addition, legislation has been enacted in the Provinces of Ontario and certain other provinces that is intended to provide unitholders in those provinces with limited liability. However, there remains a risk, which the REIT considers to be remote in the circumstances, that a unitholder could be held personally liable for the Trust's obligations to the extent that claims are not satisfied out of the Trust's assets. It is intended that the Trust's affairs will be conducted to seek to minimize such risk wherever possible.

RELATED PARTY TRANSACTIONS

H&R Property Management Ltd. (the "Property Manager"), a company owned by family members of the Chief Executive Officer, provides property management services for substantially all properties owned by the REIT, including leasing services, for a fee of 2% of gross revenue. The Property Manager also provides support services in connection with the acquisition, disposition and development activities of the REIT and is also entitled to an incentive fee. Acquisitions and development support services are provided for a fee of 2/3 of 1% of total acquisition and development costs, as defined in the agreement and effective January 1, 2007. Effective January 1, 2008, the support services relating to dispositions of income properties are provided for a fee of 10% of the gain on sale of income properties adjusted for the add back of accumulated depreciation and amortization. The current agreement expires on January 1, 2010 with two automatic five-year extensions.

During the three months ended March 31, 2009, the REIT recorded fees pursuant to this agreement of $3.5 million (March 31, 2008 - $4.0 million), of which nil (March 31, 2008 - $0.5 million) was capitalized to the cost of the income properties acquired, $0.5 million (March 31, 2008 - $0.6 million) was capitalized to properties under development and $0.9 million (March 31, 2008 - $0.5 million) was capitalized to deferred expenses. The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the three months ended March 31, 2009, a further amount of $1.2 million (March 31, 2008 - $2.2 million) has been earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager. Of this amount, $1.2 million (March 31, 2008 - nil) has been waived by the Property Manager and nil (March 31, 2008 - $2.2 million) has been expensed in the consolidated statement of earnings. The waiving of the incentive fee by the Property Manager is effective for the entire 2009 fiscal year.

Pursuant to the above agreements, as at March 31, 2009, $1.4 million (December 31, 2008 - $1.0 million) was payable to the Property Manager.

The REIT leases space to companies affiliated with the Property Manager. The rental income earned for the three months ended March 31, 2009 is $0.3 million (March 31, 2008 - $0.3 million).

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

OUTSTANDING UNIT DATA

The beneficial interests in the Trusts are represented by a single class of Stapled Units which are unlimited in number. Each unit carries a single vote at any meeting of unitholders. As at May 14, 2009, there were 147,785,560 trust units issued and outstanding.

A maximum of 5,800,000 units were authorized to be issued to the REIT's officers, employees and certain trustees under the REIT's unit option plan. All such options had been issued prior to March 31, 2003. On September 19, 2008, an amendment to the unit option plan was approved increasing the maximum units authorized by 3,000,000 to a total of 8,800,000 units. As at May 14, 2009, there were 2,454,666 options to purchase units outstanding of which 1,854,666 are fully vested.

SECTION VI

OUTLOOK

The recent turmoil in the global markets has brought about a strong focus on liquidity as the capital markets have undergone dramatic change. Sources of funds are scarce and lenders have become more conservative with their loans. Fortunately, the REIT only has approximately $40 million of mortgages maturing between April 1, 2009 and December 31, 2009. Also, given H&R's quality of assets, the REIT does not anticipate any issues relating to refinancing existing mortgages that are maturing. On average, the mortgages which are maturing over the next five years have been outstanding for at least eight years and in addition to the value of the properties having increased in the last eight years, there has been a significant amount of principal repaid. On October 31, 2008, amidst the market chaos, the REIT renewed its general operating line of $300 million with a single Canadian bank, testament to the fact that credit is available to large reputable entities with good portfolios of real estate producing sustainable cash flows over the long term.

Boscov's Department Stores filed for bankruptcy protection in August 2008 and terminated their leases. Management has handed over control of the seven income properties to the lender and therefore expects to be released from any further obligations under these non-recourse mortgages. From January 1, 2009 onwards, the annualized revenue lost from the seven Boscov's Department Stores properties will be USD $13.5 million. In addition, property operating costs will be reduced by approximately USD $1.5 million. Per Canadian GAAP mortgage interest will continue to accrue until such time as the lender releases the REIT's subsidiaries from its debt obligations. Presently, the annual mortgage interest on the loans is USD $7.5 million. The total DC and AFFO lost from Boscov's Department Stores will be approximately USD $4.5 million annually.

On November 10, 2008, Circuit City Stores filed for protection with a United States bankruptcy court. Circuit City occupies one of the REIT's properties for use as a distribution facility. The total annual rental rate on this 1,078,450 square foot property is USD $2.62 per square foot. The property has a non-recourse mortgage of USD $19.9 million as at March 31, 2009 bearing interest at 6.85% per annum. The REIT's total equity invested in this property prior to the impairment charge was approximately USD $6.8 million. The REIT did receive rental income for 21 days in March 2009 prior to the tenant rejecting their lease.

In March 2009, Bi-Lo LLC filed for relief under Chapter 11 of the United States Bankruptcy Code. Bi-Lo LLC is a tenant of four properties of the REIT and a guarantor of three other properties of the REIT that are leased by Bruno's Supermarkets, LLC, which also filed for relief under Chapter 11 of the United States Bankruptcy Code. The aggregate book value of these seven properties is approximately USD $43.1 million, with associated non-recourse mortgages thereon of approximately USD $31.7 million. While neither tenant has advised the REIT as to their intent in respect of leases for the affected properties, both of these tenants have continued to make their lease payments.

Government of Canada bond yields have experienced volatility during 2008 and commercial mortgage lenders have significantly widened their spreads. However, even with these wider spreads, the lowering of bond yields has resulted in mortgage interest rates for terms of 5 years and lower similar to the 6.2% weighted average interest of the REIT's mortgages.

The U.S. dollar although volatile, has strengthened considerably in the past few months. An increase in the U.S. dollar relative to the Canadian dollar will result in an increase to distributable cash. The REIT's distributable cash and AFFO earned from properties in the United States, which are not under Chapter 11 protection, is approximately USD $32 million per annum.

SUBSEQUENT EVENTS

On April 23, 2009, the REIT closed a $425 million, 42-month construction financing facility ("Credit Agreement") with a syndicate of various Canadian financial institutions for the REIT's development project of the Bow. The ability of the REIT to draw upon the Credit Agreement is subject to the satisfaction of certain conditions including without limitation (i) not less than $906 million of cash equity having been invested in the borrower and the project by the REIT or any affiliate thereof; (ii) execution of an acceptable management agreement with the REIT for the project; (iii) the REIT having in place a committed revolving credit facility of not less than $300 million (subject to reduction to $200 million in certain circumstances), and (iv) initial borrowings under the Credit Agreement having occurred prior to December 31, 2010 or such later mutually-agreeable date. These conditions have not yet been met. The REIT entered into an interest rate swap that should limit its interest rate exposure during the term of this Credit Agreement to an annual effective interest rate, including the cost of the swap, of 6.90%.

On April 24, 2009, Fairfax Financial Holdings Limited ("Fairfax") and its subsidiaries purchased $200 million of debentures bearing interest at a rate of 11.5% maturing on April 14, 2014 (the "Fairfax Debentures") and acquired warrants to purchase up to 28,571,429 Stapled Units at an exercise price of $7.00 per Stapled Unit. Such warrants are exercisable until April 24, 2014. The Fairfax Debentures mature on April 24, 2014. The Fairfax Debentures are not redeemable on or before April 24, 2013, except upon the satisfaction of certain conditions upon the occurrence of a change of control. After April 24, 2013 and prior to the maturity date thereof, the Fairfax Debentures are redeemable in whole or in part at the option of the REIT at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. The Fairfax Debentures are subordinated to the senior indebtedness of the REIT, but will rank pari passu with all other unsecured indebtedness of the REIT and for greater certainty, no unsecured indebtedness shall rank prior to the Fairfax Debentures. Upon a change of control, the holders of the Fairfax Debentures have the right to require the REIT to purchase the Fairfax Debentures at 101% of the principal amount plus accrued and unpaid interest. The Fairfax Debenture indenture contains similar covenants, events of defaults and remedies as the trust indenture governing the REIT's outstanding convertible debentures and also provides that subject to certain exceptions, the REIT will not change its 65% maximum limit for the total indebtedness to gross book value ratio of the REIT without the consent of the holders of the Fairfax Debentures, that a default under the Bow construction facility is an event of default under the Fairfax Debentures, and that the REIT will not extend the maturity date of any amount owing under the Bow construction facility unless it otherwise satisfies any stipulated condition under the Fairfax Debenture indenture.

In May 2009, the REIT secured a mortgage commitment for the third phase of the Bell Canada project in Mississauga, ON. The mortgage, which is expected to be funded in July 2009, subject to certain conditions, is for a principal amount of $85 million bearing interest at 6.5% per annum. The mortgage will have a 5-year term.

ADDITIONAL INFORMATION

Additional information relating to the REIT, including the REIT's Annual Information Form, is available on SEDAR at www.sedar.com.