Summary Report to Unitholders: First Quarter 2010

Financial Highlights

The following table includes non-GAAP (Generally Accepted Accounting Principles) information that should not be construed as an alternative to net earnings or cash provided by operations and may not be comparable to similar measures presented by other issuers as there is no standardized meaning of funds from operations ("FFO") , normalized FFO ("NFFO") and adjusted funds from operations ("AFFO") under GAAP.

	3 months ended March 31	
	2010	2009
FFO (millions) *	$13.5	$70.4
FFO per stapled unit (basic)	$0.09	$0.48
NFFO (millions) **	$52.4	$64.4
NFFO per stapled unit (basic) **	$0.35	$0.44
AFFO (millions) *	$12.2	$61.3
AFFO per stapled unit (basic)	$0.08	$0.42
Cash distributions paid (millions)(net of DRIP)	$24.8	$24.6
Cash distributions per stapled unit	$0.18	$0.18

* H&R's MD&A includes reconciliations of: net earnings to FFO and normalized FFO; FFO to AFFO; and AFFO to cash provided by operations. ** Normalized FFO adjusts FFO for the non-recurring loss on repayment of debentures, additional tenant recoveries for capital expenditures in excess of items expensed in property operating costs, and the net gain (loss) on foreign exchange and swap derivatives.

The following table includes results reported in accordance with Canadian GAAP.

	3 months ended March 31	
	2010	2009
Rentals from income properties (millions)	$151.2	$156.3
Net earnings (loss) (millions)	($17.3)	$22.1
Net earnings (loss) per stapled unit (basic)	($0.12)	$0.16
Cash provided by operations (millions)	$62.3	$69.5

Distribution Policy Adopted

H&R REIT also announced that its trustees have adopted a distribution policy pursuant to which the monthly combined distribution is intended to be increased as shown in the following table.

Distribution Period	Monthly Distribution Per Stapled Unit	Annualized Distribution Per Stapled Unit
Q2 2010 (April, May and June)	$0.0600	$0.72
Q3 2010 (July, August and September)	$0.0700	$0.84
Q4 2010 (October, November and December)	$0.0725	$0.87
Q1 2011 (January, February and March)	$0.0750	$0.90
Q2 2011 (April, May and June)	$0.0775	$0.93
Q3 2011 (July, August and September)	$0.0800	$0.96
Q4 2011 (October, November and December)	$0.0825	$0.99
Q1 2012 (January, February and March)	$0.0850	$1.02
Q2 2012 (April, May and June)	$0.0875	$1.05

H&R's payout ratio is projected to remain one of the lowest in the Canadian REIT sector, even with these anticipated distribution increases. By the end of the second quarter 2012, upon completion and full occupancy of *The Bow* office development project in Calgary, the trustees will review this distribution policy taking into account the additional cash being generated by *The Bow*.

Tom Hofstedter
President and Chief Executive Officer
May 14, 2010

Unaudited Combined Financial Statements of

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

For the three months ended March 31, 2010 and 2009

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

Combined Balance Sheets
(In thousands of dollars)

	March 31 2010	December 31 2009
	(unaudited)	
Assets		
Income properties (note 3)	**$ 4,129,070**	$ 4,124,856
Properties under development (note 4)	**902,030**	794,534
Accrued rent receivable	**127,307**	125,212
Other assets (note 5)	**113,147**	114,473
Mortgages and amount receivable	**63,898**	63,789
Cash and cash equivalents (note 6)	**15,207**	109,224
Assets held for sale and discontinued operations (note 23)	**-**	19,035
	$ 5,350,659	$ 5,351,123
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 7)	**$ 2,806,879**	$ 2,818,476
Debentures payable (note 8)	**607,038**	565,758
Accounts payable and accrued liabilities	**187,640**	166,971
Future income tax liability	**139,836**	138,122
Intangible liabilities	**56,462**	57,237
Bank indebtedness (note 9)	**9,316**	13,556
Liabilities related to discontinued operations (note 23)	**-**	2,215
	3,807,171	3,762,335
Non-controlling interest (note 10)	**73,415**	75,122
Unitholders' equity (notes 11 and 12)	**1,470,073**	1,513,666
Commitments and contingencies (note 24)		
Subsequent events (note 26)		
	$ 5,350,659	$ 5,351,123

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	
	2010	2009
Operating revenue:		
Rentals from income properties (note 13)	**$ 151,223**	$ 156,292
Interest income	**1,274**	1,495
	152,497	157,787
Operating expenses:		
Property operating costs	**49,668**	51,496
Interest (note 14)	**46,666**	43,757
Depreciation and amortization (note 15)	**31,198**	31,994
	127,532	127,247
Net property operating income (note 21)	**24,965**	30,540
Net gain (loss) on foreign exchange	**(3,528)**	4,895
Impairment loss on income properties (note 3)	**-**	(8,229)
Unrealized gain on swap derivatives (note 9(b))	**69**	-
Loss on repayment of debentures (note 8(c))	**(38,834)**	-
Trust expenses	**(2,559)**	(1,863)
Net earnings (loss) before income taxes, non-controlling interest and discontinued operations	**(19,887)**	25,343
Income tax expense (note 22)	**(1,630)**	(4,588)
Net earnings (loss) before non-controlling interest and discontinued operations	**(21,517)**	20,755
Non-controlling interest (note 10)	**857**	(342)
Net earnings (loss) from continuing operations	**(20,660)**	20,413
Net earnings from discontinued operations (note 23)	**3,400**	1,685
Net earnings (loss)	**$ (17,260)**	$ 22,098
Basic net earnings (loss) per unit (note 16):		
Continuing operations	**$ (0.14)**	$ 0.15
Discontinued operations	**0.02**	0.01
	$ (0.12)	$ 0.16
Diluted net earnings (loss) per unit (note 16):		
Continuing operations	**$ (0.14)**	$ 0.14
Discontinued operations	**0.02**	0.01
	$ (0.12)	$ 0.15

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	Contributed surplus	Equity component of warrants and debentures	Accumulated other comprehensive loss (note 12)	Total
Unitholders' equity, December 31, 2008	$ 2,188,052	$ 744,777	$ (1,268,723)	$ -	$ 6,767	$ (19,205)	$ 1,651,668
Proceeds from issuance of units (note 11)	4,532	-	-	-	-	-	4,532
Net earnings	-	22,098	-	-	-	-	22,098
Distributions to unitholders (note 11(b))	-	-	(25,570)	-	-	-	(25,570)
Unit-based compensation (note 11(a))	63	-	-	-	-	-	63
Other comprehensive income	-	-	-	-	-	4,544	4,544
Unitholders' equity, March 31, 2009	2,192,647	766,875	(1,294,293)	-	6,767	(14,661)	1,657,335
Proceeds from issuance of units (note 11)	18,909	-	-	-	-	-	18,909
Issue costs	(866)	-	-	-	-	-	(866)
Issuance of warrants, net of costs	-	-	-	-	8,533	-	8,533
Equity component from issuance of convertible debentures, net of costs	-	-	-	-	43,326	-	43,326
Net earnings	-	64,427	-	-	-	-	64,427
Distributions to unitholders	-	-	(77,035)	-	-	-	(77,035)
Redemption of units	(28,873)	-	-	28,873	-	-	-
Redemption of warrants	-	(148,308)	-	(28,873)	(8,533)	-	(185,714)
Unit-based compensation	472	-	-	-	-	-	472
Other comprehensive loss	-	-	-	-	-	(15,721)	(15,721)
Unitholders' equity, December 31, 2009	2,182,289	682,994	(1,371,328)	-	50,093	(30,382)	1,513,666
Proceeds from issuance of units (note 11)	**2,097**	**-**	**-**	**-**	**-**	**-**	**2,097**
Net loss	**-**	**(17,260)**	**-**	**-**	**-**	**-**	**(17,260)**
Distributions to unitholders (note 11 (b))	**-**	**-**	**(25,897)**	**-**	**-**	**-**	**(25,897)**
Redemption of convertible debentures (note 8 (a))	**10**	**-**	**-**	**-**	**(1)**	**-**	**9**
Unit-based compensation (note 11 (a))	**-**	**-**	**-**	**297**	**-**	**-**	**297**
Other comprehensive loss	**-**	**-**	**-**	**-**	**-**	**(2,839)**	**(2,839)**
Unitholders' equity, March 31, 2010	**$ 2,184,396**	**$ 665,734**	**$ (1,397,225)**	**$ 297**	**$ 50,092**	**$ (33,221)**	**$ 1,470,073**

COMPREHENSIVE INCOME (LOSS)	Three Months Ended March 31 **2010**	2009
Net earnings (loss)	**$ (17,260)**	$ 22,098
Unrealized gain (loss) on translation of self-sustaining foreign operations	**(2,932)**	4,428
Transfer of realized loss on cash flow hedges to net earnings	**92**	176
Future income taxes (note 22)	**1**	(60)
Other comprehensive income (loss)	**(2,839)**	4,544
Comprehensive income (loss)	**$ (20,099)**	$ 26,642

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	
	2010	2009
Cash provided by (used in):		
Operations:		
Net earnings (loss)	**$ (17,260)**	$ 22,098
Items not affecting cash:		
Rent amortization (notes 13 and 23)	**1,170**	929
Depreciation and amortization (notes 15 and 23)	**31,239**	33,213
Gain on sale of income properties (note 23)	**(3,633)**	(424)
Impairment loss on income properties (note 3)	**-**	8,229
Future income taxes (note 22)	**1,518**	4,515
Unrealized gain on swap derivatives (note 9(b))	**(69)**	-
Loss on repayment of debentures (note 8(c))	**38,834**	-
Effective interest rate accretion (notes 14 and 23)	**2,563**	580
Unrealized (gain) loss on foreign exchange	**3,526**	(4,915)
Unit-based compensation (note 11(a))	**297**	63
Net earnings attributable to non-controlling interest (note 10)	**(728)**	407
Change in other non-cash operating items (note 17)	**4,799**	4,774
	62,256	69,469
Financing:		
Bank indebtedness	**(4,244)**	18,353
Mortgage principal repayments	**(23,193)**	(28,709)
Proceeds from issuance of debentures payable (notes 8(a) and 8(b))	**227,933**	-
Repayment of debentures payable (note 8(c))	**(227,752)**	-
Proceeds from issuance of units, net	**11**	2,627
Distributions to unitholders (note 11(b))	**(23,811)**	(23,665)
Distributions to non-controlling interest (note 10)	**(979)**	(979)
	(52,035)	(32,373)
Investments:		
Properties under development	**(101,922)**	(52,723)
Income properties:		
Net proceeds on disposition of income properties	**22,241**	20,207
Acquisitions (note 3)	**(24,491)**	-
Capital expenditures	**(5,484)**	(122)
Mortgages and amounts receivable	**(109)**	(211)
Restricted cash (note 5)	**5,246**	(5,636)
	(104,519)	(38,485)
Increase (decrease) in cash and cash equivalents	**(94,298)**	(1,389)
Cash and cash equivalents, beginning of year (notes 6 and 23)	**109,505**	17,683
Cash and cash equivalents, end of period (notes 6 and 23)	**$ 15,207**	$ 16,294
Supplemental cash flow information:		
Interest paid	**$ 43,837**	$ 46,158
Supplemental disclosure of non-cash financing and investing activities:		
Acquisitions of income properties through assumption of mortgages payable, net of mark to market adjustments	**36,276**	-
Release of mortgage obligation upon lender consent	**-**	(4,633)
Non-cash transfer of property under development to income properties	**-**	117,007
Non-cash distributions to unitholders (note 11(b))	**2,086**	1,905
Non-cash conversion of convertible debentures (note 8(a))	**10**	-

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 (note 11). 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 Trusts' 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 Stapled Units of each of the Trusts may only be transferred together as Stapled Units unless an event of "uncoupling" has occurred.

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

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

- A support agreement between the Trusts ensure 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 H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco"), a wholly owned U.S. subsidiary of the REIT; 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.

On November 30, 2009, the Trusts completed a reorganization (the ''2009 Reorganization'') as part of the steps required to enable the REIT to qualify for the REIT exemption under certain provisions in the Income Tax Act (Canada) applicable to publicly traded trusts and partnerships. The 2009 Reorganization involved, among other things, a redemption of 5,437,565 Stapled Units of the Trusts held by H&R Portfolio Limited Partnership ("HRLP"), a subsidiary partnership of the REIT. In accordance with the respective Declarations of Trust for the Trusts and upon the exercise of discretion by the trustees of the REIT, as provided for in the Declaration of Trust of the REIT, the redemption price for the REIT units was paid in cash, while Finance Trust delivered notes receivable from U.S. Holdco, in payment of the redemption price for the Finance Trust Units redeemed.

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, 2010 and December 31, 2009 and the results of operations and cash flows for the three months ended March 31, 2010 and 2009. Canadian generally accepted accounting principles ("GAAP") requires additional disclosures for annual financial statements and accordingly, these combined financial statements should be read in conjunction with the audited combined financial statements and notes for the year ended December 31, 2009.

1. Significant accounting policies (continued):

The results of operations for the three months ended March 31, 2010 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, 2009 annual audited combined financial statements.

2. Future changes in accounting policies:

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") confirmed that the adoption of IFRS would be effective for the interim and annual periods beginning on or after January 1, 2011 for Canadian publicly accountable profit-oriented enterprises. IFRS will replace current Canadian GAAP for these enterprises. Comparative IFRS information for the previous fiscal year will also have to be reported. These new standards will be effective for the Trusts in the first quarter of 2011.

The Trusts are currently in the process of evaluating the potential impact of IFRS on their combined financial statements. This will be an ongoing process as the International Accounting Standards Board and the AcSB issue new standards and recommendations. The Trusts' combined financial performance and financial position as disclosed in the Trusts' current Canadian GAAP financial statements may be significantly different when presented in accordance with IFRS.

3. Income properties:

March 31, 2010	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 885,290	$ -	$ 885,290
Buildings	3,296,505	(461,495)	2,835,010
Building improvements	28,752	(6,496)	22,256
Paving and equipment	128,417	(57,449)	70,968
	4,338,964	(525,440)	3,813,524
Intangible assets	445,100	(129,554)	315,546
	$ 4,784,064	$ (654,994)	$ 4,129,070

3. Income Properties (continued):

December 31, 2009	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 877,530	$ -	$ 877,530
Buildings	3,282,641	(444,212)	2,838,429
Building improvements	23,260	(5,997)	17,263
Paving and equipment	128,820	(56,156)	72,664
	4,312,251	(506,365)	3,805,886
Intangible assets	442,708	(123,738)	318,970
	$ 4,754,959	$ (630,103)	$ 4,124,856

During the three months ended March 31, 2010, the REIT recorded no impairment charge. During the three months ended March 31, 2009, the REIT recorded an impairment charge of $8,229 on one of its U.S. income properties occupied by Circuit City. The impairment was 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.

Acquisitions:

During the three months ended March 31, 2010, the REIT acquired four income properties. These acquisitions have been recorded by the purchase method with the results of operations included in these combined financial statements from the date of acquisition. There were no acquisitions during the year ended December 31, 2009. The following table summarizes the acquired net assets at fair value on their respective dates of acquisition:

Assets	
Land	$ 14,302
Building	37,678
Paving and equipment	2,200
Intangible acquired in-place lease costs	6,382
Customer relationship value	769
	61,331
Liabilities	
Mortgages payable, net of mark to market adjustments	36,276
Intangible below-market rent leases	564
Net assets acquired and settled by cash	$ 24,491

4. Properties under development:

Project	Address	March 31 2010	December 31 2009
The Bow (note 24(a))	5th Ave. at Centre Street, Calgary, AB	**$ 826,391**	$ 719,173
Heart Lake	Mayfield West Business Park, Caledon, ON	**39,861**	39,809
Airport Road	7900 Airport Road, Brampton, ON	**35,778**	35,552
		$ 902,030	$ 794,534

5. Other assets:

	March 31 2010	December 31 2009
Tenant inducements (net of accumulated amortization of $10,749 (2009 - $9,807))	**$ 29,424**	$ 29,797
Leasing expenses (net of accumulated amortization of $20,196 (2009 - $19,145))	**27,218**	27,542
Prepaid expenses and sundry assets	**15,956**	12,811
Restricted cash	**14,755**	20,001
Future income tax asset	**14,513**	14,316
Accounts receivable	**7,749**	6,543
Swap derivatives (note 9(b))	**3,532**	3,463
	$ 113,147	$ 114,473

6. Cash and cash equivalents:

Cash and cash equivalents at March 31, 2010 includes cash on hand of $11,264 (December 31, 2009 - $9,281) and bank term deposits of $3,943 (December 31, 2009 - $99,943) at rates of interest varying between 0.16% to 0.25% (December 31, 2009 - 0.11% to 0.26%).

7. Mortgages payable:

The mortgages payable are secured by income properties and letters of credit in certain cases, bear fixed interest with a contractual weighted average rate of 6.2% (December 31, 2009 - 6.2%) per annum and mature between 2010 and 2035. Included in mortgages payable at March 31, 2010 are U.S. dollar denominated mortgages of U.S. $856,827 (December 31, 2009 - U.S. $826,906). The Canadian equivalents of these amounts are $873,964 (December 31, 2009 - $868,252).

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:	
2010 *	$ 86,078
2011	169,723
2012	364,987
2013	195,596
2014	277,507
Thereafter	1,569,617
	2,663,508
Mortgages payable due on demand **	149,865
Financing cost and mark-to-market adjustment arising on acquisitions	(6,494)
	$ 2,806,879

* For the balance of the year

** Relates to 10 non-recourse mortgages to the REIT for income properties in which the tenants, Boscov's Department Stores, Circuit City and Bruno's Supermarkets, LLC, 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.

8. Debentures payable:

		Maturity	Contractual interest rate	Effective interest rate	Conversion price	Face value	March 31 2010 Carrying value	December 31 2009 Carrying value
2013 Convertible Debentures		June 30, 2013	6.65%	9.10%	$ 23.11	$115,000	**$ 107,210**	$ 106,734
2014 Convertible Debentures	(a)	December 31, 2014	6.75%	12.30%	14.00	149,990	**120,499**	119,427
2017 Convertible Debentures		June 30, 2017	6.00%	8.60%	19.00	175,000	**151,376**	150,830
Series A Senior Debentures	(b)	February 3, 2015	5.20%	5.40%	-	115,000	**113,996**	-
Series B Senior Debentures	(b)	February 3, 2017	5.90%	6.06%	-	115,000	**113,957**	-
Non-Convertible Debentures	(c)	-	11.50%	12.90%	-	-	**-**	188,767
							$ 607,038	$ 565,758

(a) *2014 Convertible Debentures:*

During the three months ended March 31, 2010, holders of $10 of 2014 Convertible Debentures at face value exercised their option to convert to units. Of the $10, $1 was recorded as a reduction of the original equity component and $9 was recorded as a reduction of the debt component. This ratio is consistent with the original equity and debt ratio. A total of 714 Stapled Units were issued on conversion.

(b) *Series A Senior Debentures and Series B Senior Debentures:*

In February 2010, the REIT issued $115,000 Series A unsecured senior debentures (the "Series A Senior Debentures"), bearing interest at the annual contractual rate of 5.20% and an effective interest rate of 5.40%. The Series A Senior Debentures mature on February 3, 2015, and interest is paid semi-annually on February 3 and August 3. On issuance, the REIT recorded a liability of $113,981, net of issue costs of $1,019.

In February 2010, the REIT issued $115,000 Series B unsecured senior debentures (the "Series B Senior Debentures"), bearing interest at the annual contractual rate of 5.90% and an effective interest rate of 6.06%. The Series B Senior Debentures mature on February 3, 2017, and interest is paid semi-annually on February 3 and August 3. On issuance, the REIT recorded a liability of $113,953, net of issue costs of $1,047.

Interest expense is recorded as a charge to income and is calculated at an effective interest rate with the difference between the coupon rate and the effective rate being credited to the carrying value such that, at maturity, the carrying value is equal to the face value of the then outstanding Senior Debenture.

At its option, the REIT may redeem any of the Series A Senior Debentures or Series B Senior Debentures, (collectively "Senior Debentures"), in whole at any time, or in part from time to time, prior to maturity on payment of a redemption price equal to the greater of (i) the Canada Yield Price as defined in the Supplemental Trust Indenture and (ii) par, together in each case with accrued and unpaid interest to the date fixed for redemption. The REIT will give notice of any redemption at least 30 days but not more than 60 days before the date fixed for redemption. Where less than all of any Senior Debentures are to be redeemed pursuant to their terms, the Senior Debentures to be so redeemed will be redeemed on a pro rata basis according to the principal amount of Senior Debentures registered in the respective name of each holder of Senior Debentures or in such other manner as the Indenture Trustee may consider equitable.

8. Debentures payable (continued):

The Senior Debentures are rated BBB (with a Stable trend) by Dominion Bond Rating Services Limited.

(c) *Non-Convertible Debentures:*

In February 2010, the REIT repaid the outstanding Non-Convertible Debentures having an aggregate face value of $200,000 for a total repurchase price of $229,989. The repurchase price included accrued interest of $2,237. The REIT recognized a one-time non-recurring charge to the combined statement of earnings of $38,834, representing the difference between the repurchase price, excluding accrued interest expense, and the carrying value of the Non-Convertible Debentures of $188,918.

9. Bank indebtedness:

The REIT has the following facilities:

(a) A general operating facility which is secured by fixed charges over certain income properties due on December 31, 2011. Subject to lenders approval, the maturity date can be extended for 364 days from the original maturity date of December 31, 2011. The total facility as at March 31, 2010 is $285,443 (December 31, 2009 - $284,650) 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, 2010, after taking into account the bank indebtedness drawn of $9,316 (including amounts in note 23) (December 31, 2009 - $13,560) and the outstanding letters of credit and other items, is $241,891 (December 31, 2009 - $236,716). The Canadian dollar bank indebtedness bears interest at rates approximating the prime rate of a Canadian chartered bank. At March 31, 2010, the Canadian prime interest rate was 2.25% (December 31, 2009 - 2.25%) 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, 2010 is U.S. $4 (December 31, 2009 - U.S. $33). The Canadian equivalents of these amounts are $4 (December 31, 2009 - $35). The U.S. dollar bank indebtedness bears interest at LIBOR rates.

(b) A secured construction financing facility for the REIT's development project, the Bow (the "Bow Facility"). The facility consists of a non-revolving term construction credit facility in the amount of $425,000 available by way of prime loans, bankers' acceptances and/or letters of credit. The initial maturity date of the facility is October 22, 2012. Borrowing under this facility is subject to the satisfaction of certain conditions including:

(i) not less than $906,000 of cash equity having been invested in the project by the REIT or any affiliate thereof;

(ii) execution of an acceptable management agreement with the REIT for the project; and

(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) with a maturity date of not less than 11 months from the date of the initial borrowing under the Bow Facility.

9. Bank indebtedness (continued):

These conditions have not been satisfied as at March 31, 2010 nor has any amount been drawn upon the credit facility.

The REIT entered into an interest rate swap that is intended to limit its interest rate exposure during the term of the Bow construction financing facility. The expected annual effective interest rate for this facility, including the cost of the swap, is 6.90%. The fair value of this interest rate swap as at March 31, 2010 is $3,532 and has been recorded as an asset (note 5) resulting in an unrealized gain of $69 for the three months ended March 31, 2010.

10. Non-controlling interest:

Non-controlling interest represents the amount of equity related to the Class B units of 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.

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. HRLP, the REIT, Finance Trust and H&R Portfolio LP Trust entered into an exchange and support agreement that provides, among other things, for (i) certain capital contributions to be made by the REIT in case HRLP has insufficient (a) funds to pay the required distributions on the Class B LP units of HRLP, or (b) U.S. Holdco Notes to pay the fair market value of the Finance Trust Units required to be delivered upon exchange of any Class B LP unit; and (ii) the mechanics whereby Class B LP units may be exchanged for Stapled Units.

	Amount	Number of Class B units
As at December 31, 2008	$ 75,367	5,437,565
Non-controlling interest from continuing operations	342	-
Non-controlling interest from discontinued operations (note 23)	65	-
Distributions on Class B units of HRLP	(979)	-
As at March 31, 2009	74,795	5,437,565
Non-controlling interest from continuing operations	2,707	-
Non-controlling interest from discontinued operations	556	-
Distributions on Class B units of HRLP	(2,936)	-
As at December 31, 2009	75,122	5,437,565
Non-controlling interest from continuing operations	**(857)**	-
Non-controlling interest from discontinued operations (note 23)	**129**	**-**
Distributions on Class B units of HRLP	**(979)**	**-**
As at March 31, 2010	**$ 73,415**	5,437,565

11. Unitholders' equity:

The following number of Stapled Units, or REIT units prior to the Plan of Arrangement, are issued and outstanding:

As at December 31, 2008	147,032,851
Issued under the Distribution Reinvestment Plan and Unit Purchase Plan (the "DRIP")	668,617
	147,701,468
Stapled Units held by a subsidiary	(5,437,565)
As at March 31, 2009	142,263,903
As at March 31, 2009	147,701,468
Issued under the DRIP	593,127
Stapled Units redeemed from a subsidiary	(5,437,565)
Options exercised	968,232
As at December 31, 2009	143,825,262
Issued under the DRIP	133,585
2014 Convertible Debentures converted into Stapled Units (note 8(a))	714
As at March 31, 2010	143,959,561

(a) *Unit option plan:*

As at March 31, 2010, a maximum of 8,800,000 Stapled Units were authorized to be issued to the REIT's officers, employees and certain trustees, of which 7,600,000 options (December 31, 2009 - 7,000,000 options) have been granted. The exercise price of each option approximated the market price of the Stapled Units on the date of grant. The options vested at 33.3% per year from the grant date, being fully vested after three years, and expire ten years after the date of the grant.

During the three months ended March 31, 2010, 600,000 options were granted (March 31, 2009 - nil). The fair value of the unit options used to compute compensation cost is the estimated fair value of each option grant on the grant date. This was calculated using an option pricing model with the following weighted average assumptions: expected distribution yield is 5.13%; expected volatility is 25.00%; risk free interest rate is 2.71%; and expected option life is 4.50 years from the date of grant. The weighted average grant-date fair value of the options in total is $1,589. Unit-based compensation expense of $297 for the three months ended March 31, 2010 (March 31, 2009 - $63) was recognized in income and charged to unitholders' equity.

11. Unitholders' equity (continued):

A summary of the status of the unit option plan as at March 31, 2010 and 2009 and the changes during the three months ended on those dates are as follows:

		2010		2009
	Units	**Weighted average exercise price**	Units	Weighted average exercise price
Outstanding, beginning of year	**2,086,434**	**$ 13.05**	2,454,666	$ 13.73
Granted	**600,000**	**15.42**		
Outstanding, as at March 31	**2,686,434**	**$ 13.58**	2,454,666	$ 13.73
Options exercisable, as at March 31	**1,086,434**	**$ 13.82**	1,854,666	$ 12.81

The options outstanding at March 31, 2010 are exercisable at varying prices ranging from $9.30 to $16.56 (March 31, 2009 - $12.01 to $16.56) with a weighted average remaining life of 6.9 years (March 31, 2009 - 4.5 years). The vested options are exercisable at varying prices ranging from $13.12 to $16.56 (March 31, 2009 - $12.01 to $13.36) with a weighted average remaining life of 3.5 years (March 31, 2009 - 2.9 years).

(b) *Distributions:*

Under the REIT's Declaration of Trust, the income of the REIT shall be distributed as determined by the trustees. Notwithstanding the foregoing, the total amount of income of the REIT to be distributed to unitholders, due and payable on or before December 31 of any calendar year, shall not be less than the amount necessary to ensure that the REIT will not be liable to pay income tax under Part I of the Income Tax Act (Canada) for that year, after all permitted deductions under such act have been taken (or authorized to be taken by the trustees), and any such payment shall be considered to have been declared by the trustees and to have been payable no later than December 31 of that year. For the three months ended March 31, 2010, the REIT declared per unit distributions of $0.15 (March 31, 2009 - $0.15).

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. Finance Trust paid per unit distributions of $0.03 for the three months ended March 31, 2010 (March 31, 2009 - $0.03).

11. Unitholders' equity (continued):

The details of the distribution are as follows:

	March 31 2010	March 31 2009
Cash distributions to unitholders	$ 23,811	$ 23,665
Distributions issued under the DRIP	2,086	1,905
	$ 25,897	$ 25,570

(c) *Short form base shelf prospectus:*

On January 18, 2010, the REIT and Finance Trust filed Amendment No. 2 to the short form base shelf prospectus dated May 11, 2009 and amended July 17, 2009, to increase the aggregate offer price of securities that may be offered under the short form base shelf prospectus from $500,000 to $1,000,000 (or the equivalent thereof, at the date of issue, in any other currency or currencies, as the case may be).

12. Accumulated other comprehensive loss:

	Cash flow hedges	Foreign operations	Total
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 22)	(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)
Transfer of realized loss on cash flow hedges to net earnings	4,268	-	4,268
Future income taxes	1,044	-	1,044
Unrealized loss on translation of self-sustaining foreign operation	-	(21,033)	(21,033)
Balance as at December 31, 2009	(2,842)	(27,540)	(30,382)
Transfer of realized loss on cash flow hedges to net earnings	92	-	92
Future income taxes (note 22)	1	-	1
Unrealized loss on translation of self-sustaining foreign operation	-	(2,932)	(2,932)
Balance as at March 31, 2010	$ (2,749)	$ (30,472)	$ (33,221)

13. Rentals from income properties:

	Three months ended March 31	
	2010	2009
Rentals from income properties	**$ 150,334**	$ 153,444
Straight-lining of contractual rent	**2,059**	3,689
Rent amortization of tenant inducements	**(943)**	(537)
Rent amortization of above- and below-market rents	**(227)**	(304)
	$ 151,223	$ 156,292

14. Interest:

	Three months ended March 31	
	2010	2009
Contractual interest on mortgages payable	**$ 43,376**	$ 46,777
Contractual interest on debentures payable	**11,043**	1,886
Effective interest rate accretion	**2,563**	526
Bank interest and charges	**387**	1,167
	57,369	50,356
Capitalized interest	**(10,703)**	(6,599)
	$ 46,666	$ 43,757

15. Depreciation and amortization:

	Three months ended March 31	
	2010	2009
Depreciation of income properties	**$ 23,869**	$ 24,276
Amortization of intangible assets on acquisitions	**5,798**	6,377
Amortization of leasing expenses	**1,531**	1,341
	$ 31,198	$ 31,994

16. Net earnings (loss) per unit:

	Three months ended March 31	
	2010	2009
Net earnings (loss)	$ **(17,260)**	$ 22,098
Add net earnings (loss) attributable to		
non-controlling interest (note 10)	**(728)**	407
Diluted net earnings (loss)	$ **(17,988)**	$ 22,505

The weighted average number of Stapled Units outstanding was as follows:

	Three months ended March 31	
	2010	2009
Basic Stapled Units	**143,871,245**	142,058,524
Effect of dilutive securities:		
Unit option plan	**463,435**	-
Non-controlling interest conversion to Stapled Units (note 10)	**5,437,565**	5,437,565
Diluted units	**149,772,245**	147,496,089
Net earnings (loss) per Stapled Unit:		
Basic	$ **(0.12)**	$ 0.16
Diluted	$ **(0.12)**	$ 0.15

The convertible debentures are anti-dilutive for the three months ended March 31, 2010 and 2009; therefore, the potential conversion into Stapled Units has not been included in the calculation of diluted units.

17. Change in other non-cash operating items:

	Three months ended March 31	
	2010	2009
Leasing expenses and tenant inducements	**$ (1,395)**	$ (1,616)
Accrued rent receivable	**(1,966)**	(4,517)
Prepaid expenses and sundry assets	**(3,040)**	(2,007)
Accounts receivable	**(1,170)**	500
Accounts payable and accrued liabilities	**12,370**	12,414
	$ 4,799	$ 4,774

18. 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, debentures payable and bank indebtedness. As long as the REIT complies with its investment and debt restrictions set out in its Declaration of Trust, it is 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 and cash. 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% (provided that for this purpose "indebtedness" excludes the 2013 Convertible Debentures, 2014 Convertible Debentures, 2017 Convertible Debentures and U.S. Holdco notes payable to Finance Trust). As at March 31, 2010, this ratio was 52.6% (December 31, 2009 - 52.5%). Management uses this ratio as a key indicator in managing the REIT's capital.

18. Capital risk management (continued):

In addition to the above key ratio, the REIT's general operating facility (note 9(a)) has the following covenants which are required to be calculated based on the REIT's and Finance Trust's combined financial statements:

	Covenant	March 31 2010	December 31 2009
(a) Maximum indebtedness to gross book value	65%	**50.7%**	50.5%
(b) Minimum debt service coverage ratio	1.20 : 1	**1.52 : 1**	1.55 : 1
(c) Minimum equity	$1,300,000 plus 75% of net cash proceeds from future equity offerings	**$1,470,073**	$1,513,666

The REIT has various covenants with respect to its debt. The REIT is in compliance with these covenants as at March 31, 2010.

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, 2010 and December 31, 2009. The REIT monitors these ratios and is in compliance with such external requirements, except for the mortgages due on demand (note 7).

19. Risk management:

(a) *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 an A (low) rating by a recognized rating agency.

(b) *Liquidity risk:*

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

19. Risk management (continued):

Management's strategy for 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 creditworthy 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 paid by the time the mortgages mature.

The contractual obligations for mortgages payable are disclosed in note 7. The REIT also has contractual obligations for debentures payable, as described in note 8.

The agreements and indentures governing indebtedness of the REIT 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 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 general operating facility, as described in note 9(a), available to draw on to fund its obligations.

The REIT is subject to currency risk 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.

(i) *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 $0.10 weakening of the U.S. dollar against the average Canadian dollar exchange rate of $1.04 for the three months ended March 31, 2010 (March 31, 2009 - $1.25) would have decreased other comprehensive income by approximately $13,100 (March 31, 2009 - $11,100) and increased net earnings by approximately $200 (March 31, 2009 - $800). This analysis assumes that all the variables, in particular interest rates, remain constant (a $0.10 weakening of the Canadian dollar against the U.S. dollar at March 31, 2010 would have had the equal but opposite effect).

19. Risk management (continued):

(ii) *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, 2010, the percentage of fixed rate debt to total debt was 99.7% (December 31, 2009 - 99.6%). As at March 31, 2010, 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, 2010 would have decreased net earnings by approximately nil (March 31, 2009 - $305). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

20. Related party transactions:

H&R Property Management Ltd. (the "Property Manager"), a company partially 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 which is 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, 2015 with one automatic five-year extension.

During the three months ended March 31, 2010, the REIT recorded fees pursuant to this agreement of $3,659 (March 31, 2009 - $3,539), of which $410 (March 31, 2009 - nil) was capitalized to the cost of the income properties acquired, $442 (March 31, 2009 - $488) was capitalized to properties under development and $530 (March 31, 2009 - $857) was capitalized to leasing expenses. Approximately 72% of these fees are recoverable from tenants. 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, 2010, a further amount of $625 (March 31, 2009 - $1,200) 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, nil (March 31, 2009 – $1,200) has been waived by the Property Manager and $625 (March 31, 2009 - nil) has been expensed in the combined statements of earnings.

Pursuant to the above agreements, as at March 31, 2010, $1,681 (December 31, 2009 - $857) 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, 2010 is $332 (March 31, 2009 - $301).

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

21. 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 2010	December 31 2009
Canada	$ 3,914,492	$ 3,823,522
United States	1,116,608	1,095,868
	$ 5,031,100	$ 4,919,390

Net property operating income for the three months ended March 31, 2010	Canada	United States	Total
Operating revenue	$ 128,209	$ 24,288	$ 152,497
Property operating costs	(45,281)	(4,387)	(49,668)
Interest	(33,683)	(12,983)	(46,666)
Depreciation and amortization	(22,867)	(8,331)	(31,198)
Net property operating income	$ 26,378	$ (1,413)	$ 24,965

Net property operating income for the three months ended March 31, 2009	Canada	United States	Total
Operating revenue	$ 127,716	$ 30,071	$ 157,787
Property operating costs	(46,355)	(5,141)	(51,496)
Interest	(27,910)	(15,847)	(43,757)
Depreciation and amortization	(22,835)	(9,159)	(31,994)
Net property operating income	$ 30,616	$ (76)	$ 30,540

22. Income tax expense:

	Three months ended March 31	
	2010	2009
Income tax expense included in the determination of net earnings from continuining operations:		
Current	**$ 112**	$ 73
Future	**1,518**	4,515
	1,630	4,588
Future income tax included in the determination of other comprehensive income	**(1)**	60
	$ 1,629	$ 4,648

23. Assets held for sale and discontinued operations:

There are currently no properties held for sale as at March 31, 2010 (December 31, 2009 - one industrial and one retail property). The following table sets forth the balance sheets associated with income properties classified as discontinued operations.

	March 31 2010	December 31 2009
Assets		
Income properties (net of accumulated depreciation of nil (2009 - $3,418))	**$ -**	$ 17,465
Accrued rent receivable	**-**	188
Prepaid expenses and sundry assets	**-**	105
Accounts receivable	**-**	36
Leasing expenses (net of accumulated amortization of nil (2009 - $1,206))	**-**	960
Cash and cash equivalents	**-**	281
	$ -	$ 19,035
Liabilities		
Accounts payable and accrued liabilities	**$ -**	$ 2,211
Bank indebtedness	**-**	4
	$ -	$ 2,215

The REIT sold two properties during the first three months of 2010 and seven properties in the year ended December 31, 2009. The results of operations from these properties have been separately disclosed below.

23. Assets held for sale and discontinued operations (continued):

Net earnings from discontinued operations	Three Months Ended March 31 2010	2009
Operating revenue:		
Rentals from income properties	**$ 362**	$ 5,490
Straight-lining of contractual rent	**(129)**	332
Rent amortization of tenant inducements	**-**	(92)
Rent amortization of above- and below-market rents	**-**	4
	233	5,734
Interest income	**-**	1
	233	5,735
Operating expenses:		
Property operating costs	**296**	1,407
Contractual interest on mortgages payable	**-**	1,728
Effective interest rate accretion	**-**	54
Bank interest and charges	**-**	1
Depreciation and amortization	**41**	1,219
	337	4,409
Net property operating income (loss)	**(104)**	1,326
Gain on sale of income properties	**3,633**	424
Non-controlling interest (note 10)	**(129)**	(65)
Net earnings from discontinued operations	**$ 3,400**	$ 1,685

24. 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 $720,000, including capitalized interest, over the remaining construction period, of which approximately $530,000 is expected to be incurred during the next twelve months. As at March 31, 2010, the total cost incurred on the project amounted to $826,391 (note 4). This budget includes the construction of 1,360 parking stalls. 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 REIT will be liable to the tenant for certain delay costs which may be significant.

24. Commitments and contingencies (continued):

(b) In the normal course of operations, the REIT has issued letters of credit in connection with developments, financings, operations and acquisitions. As at March 31, 2010, the REIT has outstanding letters of credit totalling $34,211 (December 31, 2009 - $34,349), including $18,026 (December 31, 2009 - $18,164) 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 9(a)).

(c) The REIT provides guarantees on behalf of third parties, including co-owners. As at March 31, 2010, the REIT issued guarantees amounting to $42,797 (December 31, 2009 - $43,278), expiring between 2011 and 2016, relating to the co-owner's share of mortgage liability. In addition, the REIT continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable until such debts are extinguished or the lenders agree to release the REIT's covenants. At March 31, 2010 the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $118,466 (December 31, 2009 - $119,150) which expires between 2013 and 2018. There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in these financial statements.

Credit risks arise in the event that these parties default on repayment of their debt since they are guaranteed by the REIT. These credit risks are mitigated as the REIT has recourse under these guarantees in the event of a default by the borrowers, in which case the REIT's claim would be against the underlying real estate investments.

(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 financial statements.

25. Comparative figures:

Certain 2009 comparative figures have been reclassified to conform with the presentation adopted in 2010.

26. Subsequent events:

a) In April 2010, the REIT received approximately $58,000 as repayment of a mortgage receivable.

b) In May 2010, there was an amendment to the Bow construction facility. The lenders approved an increase on the limit of distributions to 70% of funds from operations.

c) In May 2010, the trustees of the REIT approved an increase of 1 cent per month to the combined distributions of the REIT and Finance Trust effective from July 2010. This will effectively bring the combined annual distribution rate to 84 cents.

d) In May 2010, the REIT entered into a foreign exchange forward contract with CIBC effectively locking the REIT's rate to exchange $2,000 USD per month at 1.0402 for a 2-year period.

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, 2010

Dated: May 14, 2010

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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, 2010 should be read in conjunction with the Trusts' combined financial statements and the notes thereto for the years ended December 31, 2009 and 2008. 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 Trusts' 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; 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.

Readers are also urged to examine the REIT 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, 2010 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, 2010 and 2009 is unaudited.

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 REIT 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 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 income producing properties in Canada and the United States occupied by creditworthy tenants on a long-term basis. The REIT does not have any specific allocation targets as to property type, but rather focuses on creditworthy tenants with long-term leases.

Currently, the REIT's main focus is on the construction of the Bow in Calgary, AB. The total budget for the project is $1.5 billion net of rent received during the construction period. The Bow is a 2-million square foot head office complex pre-leased to EnCana Corporation for a term of 25 years. EnCana Corporation is scheduled to begin occupancy in 2011. The project is currently on schedule and on budget. The total annualized year one projected income from the Bow is expected to be approximately $94 million. Rent step ups will be 0.75% per annum on the office space and 1.5% per annum on the parking income for the full 25-year term.

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 is to hold debt issued by H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco"), a wholly owned U.S. subsidiary of the REIT. As at March 31, 2010, Finance Trust holds U.S. $122.5 million of aggregate principal amount of notes payable by U.S. Holdco ("U.S. Holdco Notes"). 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 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, Distribution Reinvestment Plan and Unit Purchase 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 or distributed to unitholders of Finance Trust.

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 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) (the "Tax Act") 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.

FINANCIAL HIGHLIGHTS

(in '000's except units and per unit amounts)	**March 31, 2010**	December 31, 2009
Total assets	**$5,350,659**	$5,351,123
Debt to gross book value of assets (per the REIT's Declaration of Trust)	**52.6%**	52.5%
Debt to gross book value of assets	**57.0%**	56.8%
Units outstanding	**143,960**	143,825

	March 31, 2010	March 31, 2009
Property rental revenue	**$151,223**	$156,292
Property operating income	**24,965**	30,540
Normalized funds from operations ("NFFO")	**52,407**	64,433
Weighted average number of basic units for NFFO	**149,309**	147,496
Normalized funds from operations per basic unit	**$0.35**	$0.44
Distributions paid per unit	**$0.18**	$0.18
Payout ratio per unit as a % of basic NFFO	**51.4%**	40.9%

NFFO is reconciled to FFO and FFO is reconciled to AFFO which is reconciled to cash provided by operations, being the most comparable GAAP measure to this non-GAAP financial measure. See page 22.

NON-GAAP FINANCIAL MEASURES

Property operating income, same-asset property operating income, funds from operations ("FFO"), normalized funds from operations ("NFFO"), 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. 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.

KEY PERFORMANCE DRIVERS

OPERATIONS	3 months ended March 31	Office	Industrial	Retail	Total*
Occupancy [(1)]	**2010**	**98.6%**	**98.9%**	**99.9%**	**99.0%**
	2009	98.9%	98.6%	99.9%	98.9%
Occupancy – same asset [(2)]	**2010**	**98.6%**	**98.9%**	**99.9%**	**99.0%**
	2009	99.2%	98.4%	99.9%	98.9%
Average contractual rent per square foot [(3)]	**2010**	**$19.75**	**$5.70**	**$12.58**	**$10.09**
	2009	$19.54	$5.60	$13.27	$9.99

* weighted average total

(1) Excluding those tenants who have filed for protection under Chapter 11 of the United States Bankruptcy Code.

(2) Same asset refers to those properties owned by the REIT for the entire fifteen month period ended March 31, 2010 and excludes any assets classified as discontinued operations and those assets whose tenants terminated their leases due to U.S. bankruptcies.

(3) For continuing operations only and excluding those tenants who have filed for protection under Chapter 11 of the United States Bankruptcy Code.

	March 31 2010	December 31 2009
Average remaining term to maturity of leases (years)	**10.5**	10.5
Average remaining term to maturity of mortgages payable (years)	**8.2**	8.3

PORTFOLIO OVERVIEW

The geographic diversification of the REIT's portfolio (excluding those properties whose tenants have filed for Chapter 11 protection with a United States bankruptcy court) as at March 31, 2010 is outlined in the charts below:

NUMBER OF PROPERTIES	Ontario	United States	Alberta	Quebec	Other	Total
Office	22	2	4	1	4	33
Industrial	53	16	19	11	19	118
Retail	32	76	5	5	3	121
Total	107	94	28	17	26	272

Square Feet (in thousands)	Ontario	United States	Alberta	Quebec	Other	Total
Office	5,208	258	1,406	452	884	8,208
Industrial	9,450	6,314	2,810	2,850	1,176	22,600
Retail	1,759	4,666	515	498	524	7,962
Total	16,417	11,238	4,731	3,800	2,584	38,770

Properties under development (in thousands of dollars)

Project	Address	**March 31, 2010**	December 31, 2009
The Bow	5th Ave. At Centre Street, Calgary, AB	**$826,391**	$719,173
Heart Lake	Mayfield West Business Park, Caledon, ON	**39,861**	39,809
Airport Road	7900 Airport Rd., Brampton, ON	**35,778**	35,552
		$902,030	$794,534

Top Twenty Sources of Revenue by Tenant

	Tenant	% of rentals from income properties	Number of locations	REIT owned sq.ft. (in 000's)	Average lease term to maturity (years)
1.	Bell Canada	11.5	4	1,734	15.5
2.	TransCanada Pipelines Limited	7.1	2	950	10.9
3.	Telus Communications	6.0	2	943	13.1
4.	Bell Mobility	5.5	2	775	15.6
5.	Rona Inc.	3.9	14	2,151	9.7
6.	Versacold Logistics Canada Inc.	3.4	12	1,733	16.8
7.	Canadian Tire Corp.	3.3	4	2,189	16.5
8.	Royal Bank of Canada	3.1	4	451	6.5
9.	Lowes Companies Inc.	2.3	11	1,435	9.0
10.	Nestle USA	1.9	3	2,168	7.5
11.	Nestle Canada Inc.	1.9	1	170	9.4
12.	Shell Oil Products	1.8	18	249	12.4
13.	Purolator Courier	1.8	12	1,071	11.2
14.	Public Works of Canada	1.6	3	277	7.0
15.	Finning International	1.5	16	893	12.1
16.	Marsh Supermarkets.	1.4	9	548	16.6
17.	Hudson's Bay Company	1.1	3	937	9.0
18.	Sobey's Inc.	1.1	10	347	11.9
19.	BJ's Wholesale Club Inc.	1.0	4	452	12.1
20.	Loblaw Properties Limited	1.0	1	716	12.8
	Total	**62.2%**	**135**	**20,189**	

The percentage of rentals from income properties is based on estimated annualized gross revenue excluding the straight lining of contractual rent and discontinued operations.

LEASE EXPIRIES	Office		Industrial		Retail		Total	
	% 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
2010 *	0.5	20.27	2.1	5.34	0.2	22.81	2.8	9.25
2011	0.4	22.45	0.3	13.65	0.1	9.68	0.8	17.55
2012	0.9	17.29	2.2	5.21	0.1	21.15	3.2	9.11
2013	0.5	18.51	3.6	5.57	0.4	9.41	4.5	7.35
2014	1.5	15.40	3.5	4.47	0.4	7.97	5.4	7.77
	3.8	17.64	11.7	5.34	1.2	12.16	16.7	8.63

* for the balance 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
2010 *	$72,197	$13,881	$86,078	3.2%	6.2%
2011	99,477	70,246	169,723	6.4%	6.5%
2012	98,698	266,289	364,987	13.7%	6.7%
2013	94,312	101,284	195,596	7.3%	7.5%
2014	94,875	182,632	277,507	10.4%	6.2%
Thereafter			1,569,617	59.0%	
			2,663,508	100%	
Mortgages payable due on demand(1)			149,865		
Financing cost and mark-to-market adjustment arising on acquisitions(2)			(6,494)		
Total			$2,806,879		

* For the balance of the year

(1) Relates to 10 non-recourse mortgages to the REIT for income properties in which the tenants (Boscov's Department Stores, Circuit City and Bruno's Supermarkets LLC), 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.

(2) Mark-to-market adjustment represents the difference between the actual mortgages assumed on property acquisitions and the fair value of the mortgages at the date of purchase, less the recognized portion in interest over the life of the applicable mortgage using the effective interest rate method. Deferred financing costs are deducted from the REIT's mortgages payable balances and are recognized in interest over the life of the applicable mortgage.

OUTLOOK

Construction of the Bow, our $1.5-billion office development in downtown Calgary, is progressing on time and on budget. EnCana is scheduled to take full occupancy of the 58-storey landmark tower during 2012, at which time the Bow should emerge as one of the highest quality office towers in Canada and the keystone of the REIT's portfolio of properties.

Equity and credit markets have eased dramatically over the past nine months and continue to steadily improve which has allowed us to reduce our real estate financing costs and shore up our balance sheet. This was evidenced by the REIT entering the senior unsecured debenture market in February 2010. The REIT issued $230 million of unsecured senior debentures at an average contractual interest rate of 5.55%. This debt was to replace the more expensive non-convertible debentures which had a contractual interest rate of 11.50%. More abundant and cheaper capital has also increased demand for commercial properties, placing downward pressure on cap rates and thereby increasing the market value of our portfolio.

The REIT acquired 4 newly constructed retail properties in the United States for $61 million during the first quarter of 2010. The REIT assumed $36 million of mortgages payable at a contractual interest rate of 6% for a term of twenty years. The REIT's levered return from these acquisitions is expected to be 10%. We expect to continue our acquisition strategy this year on a very select and disciplined basis. There are currently few opportunities in Canada to acquire high-quality properties at attractive pricing. However, in the United States, the recovery in the commercial real estate markets has been much slower, cap rates are higher than equivalent Canadian properties and financing for good quality properties appears to becoming increasingly available.

The Trusts also announced that its trustees have adopted a distribution policy pursuant to which the monthly combined distribution is intended to be increased as shown in the following table.

Distribution Period	Monthly Distribution Per Stapled Unit	Annualized Distribution Per Stapled Unit
Q2 2010 (April, May and June)	$0.0600	$0.72
Q3 2010 (July, August and September)	$0.0700	$0.84
Q4 2010 (October, November and December)	$0.0725	$0.87
Q1 2011 (January, February and March)	$0.0750	$0.90
Q2 2011 (April, May and June)	$0.0775	$0.93
Q3 2011 (July, August and September)	$0.0800	$0.96
Q4 2011 (October, November and December)	$0.0825	$0.99
Q1 2012 (January, February and March)	$0.0850	$1.02
Q2 2012 (April, May and June)	$0.0875	$1.05

The Trusts' payout ratio is projected to remain one of the lowest in the Canadian REIT sector, even with these anticipated distribution increases. By the end of the second quarter 2012, upon completion and full occupancy of The Bow, the trustees will review the distribution policy taking into account the additional cash being generated by The Bow. The trustees retain the right to re-evaluate its distribution policy from time to time as they consider appropriate. As all distributions remain subject to declaration by the REIT's trustees, there is no assurance that the actual distributions declared will be as provided in the distribution policy.

SECTION II

RESULTS OF OPERATIONS

(in thousands of dollars except per unit amounts)	Three months ended March 31 2010	2009	% Change
Operating revenue:			
Rentals from income properties	**$151,223**	$156,292	(3)
Interest income	**1,274**	1,495	(15)
	152,497	157,787	(3)
Operating expenses:			
Property operating costs	**49,668**	51,496	(4)
Interest	**46,666**	43,757	7
Depreciation and amortization	**31,198**	31,994	(2)
	127,532	127,247	-
Net property operating income	**24,965**	30,540	(18)
Net gain (loss) on foreign exchange	**(3,528)**	4,895	
Impairment loss on income properties	**-**	(8,229)	
Unrealized gain on swap derivatives	**69**	-	
Loss on repayment of debentures	**(38,834)**	-	
Trust expenses	**(2,559)**	(1,863)	
Net earnings (loss) before income taxes, non-controlling interest and discontinued operations	**(19,887)**	25,343	
Income tax expense	**(1,630)**	(4,588)	
Net earnings (loss) before non-controlling interest and discontinued operations	**(21,517)**	20,755	
Non-controlling interest	**857**	(342)	
Net earnings (loss) from continuing operations	**(20,660)**	20,413	
Net earnings from discontinued operations	**3,400**	1,685	
Net earnings (loss)	**($17,260)**	$22,098	
Basic net earnings (loss) per unit			
Continuing operations	**($0.14)**	$0.15	
Discontinued operations	**0.02**	0.01	
	($0.12)	$0.16	
Diluted net earnings (loss) per unit			
Continuing operations	**($0.14)**	$0.14	
Discontinued operations	**0.02**	0.01	
	($0.12)	$0.15	

The net change in net earnings for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009 is mainly due to the loss on repayment of the Non-Convertible Debentures, the change in impairment loss on income properties, a decrease in income tax expense and the strengthening of the Canadian dollar as compared to the U.S. dollar between Q1 2010 and Q1 2009.

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, 2010 and 2009.

Rentals from Income Properties	Three months ended March 31		
(in thousands of dollars)	**2010**	2009	Change
Same-asset – current rentals	**$149,922**	$151,867	($1,945)
Same-asset – straight-lining of contractual rent	**2,059**	3,689	(1,630)
Same-asset rent amortization	**(1,170)**	(841)	(329)
Acquisitions – current rentals, rent amortization and straight-lining of contractual rent	**380**	-	380
Terminated leases due to U.S. bankruptcies	**32**	1,577	(1,545)
Total rentals	**$151,223**	$156,292	($5,069)

The decrease in same-asset current rentals of $1.9 million for Q1 2010 as compared to Q1 2009 is primarily due to the following items:

- same-asset current rentals from properties in the United States have decreased by $4.6 million primarily due to the weakening of the U.S. dollar when converted into Canadian dollars. The average exchange rate for the three months ended March 31, 2010 was $1.04 Canadian for each $1.00 U.S. (Q1 2009 - $1.25);
- a decrease of $3.2 million in tenant recoveries due to lower property operating expenses;
- an increase of $4.1 million of additional rent recoverable from tenants in accordance with their leases for items which were capitalized to building improvements; and
- an increase of $1.6 million from rent step ups during the term of tenant leases. This increase is offset by a decrease to the straight-lining of contractual rent which has an inverse relationship with current rentals.

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 among other items. For Q1 2010, building operating costs, realty taxes, utilities and property management fees represented 18.3%, 53.9%, 13.5%, and 6.0% respectively of total property operating costs (Q1 2009 - 21.1%, 53.2%, 12.6% and 4.2%).

Property Operating Costs	Three months ended March 31		
(in thousands of dollars)	**2010**	2009	Change
Same-asset property operating costs	**$49,329**	$51,057	($1,728)
Acquisitions	**67**	-	67
Terminated leases due to U.S. bankruptcies	**272**	439	(167)
Total property operating costs	**$49,668**	$51,496	($1,828)

The decrease in same-asset property operating costs of $1.7 million for Q1 2010 as compared to Q1 2009 is due primarily to the following reasons:

- lower expenses related to the REIT's U.S. properties of $0.6 million due primarily to the change in foreign exchange rates;
- lower regular property operating expenses of $3.2 million;

- higher capital expenditure expenses of $1.5 million; and
- higher management fees of $0.6 million due to an incentive fee of $0.6 million (Q1 2009 - nil) payable to H&R Property Management Ltd.

Same-Asset Property Operating Income *	Three months ended March 31		
(in thousands of dollars)	**2010**	2009	Change
Same-asset current rentals and straight-lining of contractual rent	**$151,981**	$155,556	($3,575)
Same-asset - property operating costs	**49,329**	51,057	(1,728)
Total same-asset - property operating income	**$102,652**	$104,499	($1,847)
Total same-asset – property operating income excluding straight-lining of contractual rent	**$100,593**	$100,810	($217)

* Same-asset property operating income excludes the properties where the tenants have terminated their leases due to U.S. bankruptcies.

Total same-asset property operating income, excluding straight-lining of contractual rent, has decreased by $0.2 million for the three months ended March 31, 2010 as compared to the respective 2009 period. The net change in same-asset property operating income excluding straight-lining of contractual rent resulted from an increase in Canada of $3.7 million, which was offset by a corresponding decrease of $3.9 million in the United States, as shown below:

	Three months ended March 31		
Canada (in thousands of dollars)	**2010**	2009	Change
Same-asset current rentals	**$126,258**	$123,619	$2,639
Same-asset property operating costs	**45,275**	46,358	(1,083)
Same-asset property operating income excluding straight-lining of contractual rent	**80,983**	77,261	3,722
United States (in thousands of dollars)			
Same-asset current rentals	**23,664**	28,248	(4,584)
Same-asset property operating costs	**4,054**	4,699	(645)
Same-asset property operating income excluding straight-lining of contractual rent	**19,610**	23,549	(3,939)
Total same-asset property operating income *	**$100,593**	$100,810	($217)

* Same-asset property operating income excludes the properties where the tenants have terminated their leases due to U.S. bankruptcies.

The increase in the Canadian same-asset property operating income of $3.7 million for Q1 2010 as compared to Q1 2009 is primarily due to increased recoverable amounts from tenants for capital expenditures of $4.1 million and increases in rent of $1.6 million offset by higher capital expenditures of $1.5 million and higher management fee expenses of $0.6 million.

The decrease in the U.S. same-asset property operating income of $3.9 million for Q1 2010 as compared to Q1 2009 is due primarily to the weakening of the U.S. dollar. The average exchange rate for the three months ended March 31, 2010 was $1.04 Canadian for each $1.00 U.S. (Q1 2009 - $1.25). Had the U.S. same-asset property operating income been reported in U.S. dollars, there would have been minimal changes quarter over quarter.

Interest Income

	Three months ended March 31		
(in thousands of dollars)	**2010**	2009	Change
Interest income	**$1,274**	$1,495	($221)

Interest income decreased when comparing Q1 2010 to Q1 2009. The decrease is primarily due to the repayment of a $16.5 million mortgage receivable in December 2009.

Interest Expense

	Three months ended March 31		
(in thousands of dollars)	**2010**	2009	Change
Contractual interest on mortgages payable	**$43,376**	$46,777	($3,401)
Contractual interest on debentures payable	**11,043**	1,886	9,157
Effective interest rate accretion	**2,563**	526	2,037
Bank interest and charges	**387**	1,167	(780)
	57,369	50,356	7,013
Capitalized interest	**(10,703)**	(6,599)	(4,104)
Interest expense	**$46,666**	$43,757	$2,909

Included in mortgage interest for the three months ended March 31, 2010 is an accrual of $2.4 million (Q1 2009 - $2.3 million) which relates to interest accrued for the mortgages on those properties where the tenant has filed for protection under Chapter 11 of the United States Bankruptcy Code. 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. The decrease in the balance is primarily due to a decrease in foreign exchange rates between Q1 2010 and Q1 2009. As at both March 31, 2010 and 2009, the REIT's weighted average contractual mortgage rate was 6.2%.

Debenture interest increased due to the REIT issuing $200 million of non-convertible debentures in April 2009 (at a contractual annual interest rate of 11.50%), $150 million of convertible debentures in July 2009 (at a contractual annual interest rate of 6.75%), $175 million of convertible debentures in December 2009 (at a contractual annual interest rate of 6.00%). In February 2010, the REIT issued $230 million of senior unsecured debentures (at an average contractual annual interest rate of 5.55%) and repaid the $200 million of Non-Convertible Debentures it had issued in April 2009.

Effective interest rate accretion is a non-cash item. This accretion increased by $2.0 million between Q1 2010 and Q1 2009 due to the issuance of $555 million of debentures between April 1, 2009 and March 31, 2010. These debentures have a weighted average contractual interest rate of 6.02% as compared to a weighted average effective interest rate of 8.41%.

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.

Net Gain (Loss) on Foreign Exchange

	Three months ended March 31		
(in thousands of dollars)	**2010**	2009	Change
Net gain (loss) on foreign exchange	**($3,528)**	$4,895	($8,423)

The net gain (loss) on foreign exchange, which was recorded in Finance Trust, is due to a difference in exchange rates as the notes receivable from U.S. Holdco are denominated in U.S. dollars while the financial statements of Finance Trust are expressed in Canadian dollars. The notes are eliminated upon combination however, the foreign exchange difference is not eliminated due to the different accounting policies which Finance Trust applies.

Loss on Repayment of Debentures

(in thousands of dollars)	Three months ended March 31 2010	2009	Change
Loss on repayment of debentures	**($38,834)**	-	($38,834)

In February 2010, the REIT repaid the outstanding Non-Convertible Debentures having an aggregate face value of $200 million for a total repurchase price of $230 million. The repurchase price included accrued interest of $2 million. The REIT recognized a one-time non-recurring charge to the combined statement of earnings of $38 million, representing the difference between the repurchase price, excluding accrued interest expense, and the carrying value of the Non-Convertible Debentures of $189 million.

Trust Expenses

(in thousands of dollars)	Three months ended March 31 2010	2009	Change
Trust expenses	**$2,559**	$1,863	$696

Trust expenses are primarily comprised of salaries, professional fees and trustee fees. Trust expenses increased quarter over quarter. The primary reason for the increase is due to increased stock-based compensation expenses, increased professional fees and costs associated with the upcoming implementation of IFRS.

Income Tax Expense

(in thousands of dollars)	Three months ended March 31 2010	2009	Change
Current income taxes	**$112**	$73	$39
Future income taxes	**1,518**	4,515	(2,997)
Total income taxes	**$1,630**	$4,588	($2,958)

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.

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 bases 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 in order to qualify for the REIT exemption by June 30, 2010. One of these changes which occurred was the purification of H&R Portfolio Limited Partnership to remove the circularity of ownership which was an issue for SIFT purposes. This change occurred on November 30, 2009. As the REIT currently does not qualify for the REIT exemption, 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 recording a future income tax expense of $1.5 million reflected in the combined earnings for the three months ended March 31, 2010 (Q1 2009 - $4.5 million). Temporary differences expected to reverse in or after 2011 have been measured using a tax rate of 28.25% in 2011 and 25% for temporary differences expected to reverse beyond 2014.

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.

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)	**2010**	2009	Change
Net property operating income (loss)	**($104)**	$1,326	(1,430)
Gain on sale of income properties	**3,633**	424	3,209
Non-controlling interest	**(129)**	(65)	(64)
Net earnings from discontinued operations	**$3,400**	$1,685	$1,715

During the three months ended March 31, 2010, the REIT sold two income properties (March 31, 2009 - two) for gross proceeds of $23.3 million (Q1 2009 - $20.8 million). The net earnings from discontinued operations includes the results from these properties and from five properties sold during the remainder of 2009. The REIT currently has no properties held for sale.

Dispositions from January 1, 2010 to March 31, 2010

Property	Property Type	Date Sold	Square Footage	Gross Proceeds ($ Millions)	Ownership Interest disposed
2390 Argentia Rd., Mississauga, ON	Industrial	Jan 12, 2010	179,054	$12.3	100%
110 Sheppard Ave., E., Toronto, ON	Office	Mar 1, 2010	154,022	11.0	50%
Total			333,076	$23.3	

Dispositions from January 1, 2009 to March 31, 2009

Property	Property Type	Date Sold	Square Footage	Gross Proceeds ($ Millions)	Ownership Interest disposed
2435 EW Connector, Austell, GA	Retail	Feb 10, 2009	115,396	$16.4	100%
97 Thames Rd., E. Exeter, ON	Industrial	Mar 16, 2009	84,000	4.4	100%
Total			199,396	$20.8	

SEGMENTED INFORMATION

The REIT invests in income producing properties in both Canada and the United States with tenants that are creditworthy and on long-term leases.

The REIT is not required to report in its financial statements on the performance of each class of assets 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 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, 2010

(in thousands of dollars)	Canada	United States	Total
Operating revenue	**$128,209**	**$24,288**	**$152,497**
Property operating costs	**(45,281)**	**(4,387)**	**(49,668)**
Interest	**(33,683)**	**(12,983)**	**(46,666)**
Depreciation and amortization	**(22,867)**	**(8,331)**	**(31,198)**
Net property operating income	**$26,378**	**($1,413)**	**$24,965**

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

(in thousands of dollars)	Canada	United States	Total
Operating revenue	$127,716	$30,071	$157,787
Property operating costs	(46,355)	(5,141)	(51,496)
Interest	(27,910)	(15,847)	(43,757)
Depreciation and amortization	(22,835)	(9,159)	(31,994)
Net property operating income	$30,616	($76)	$30,540

For the three months ended March 31, 2010, the net property operating loss for properties located in the United States was $1.4 million as compared to a loss of $0.1 million for the three months ended March 31, 2009. The change of $1.3 million is primarily due to a decrease in net property operating income of $1.6 million from those properties where the tenants have terminated their leases due to U.S. bankruptcies.

Had the net property income for properties located in the United States been shown in U.S. dollars, and excluding the item above, it would have shown income of $2.2 million for the three months ended March 31, 2010 as compared to income of $1.5 million for the three months ended March 31, 2009. The increase of $0.7 million is primarily due to acquisitions and a decrease in interest expense.

ASSETS

Income Properties

Opening balance - December 31, 2009		$4,124,856
Acquisitions		
Purchase price of acquisitions	61,045	
Transaction costs incurred	908	
Purchase price allocated to intangible liabilities based on EIC-140 calculation	564	
Mark to market adjustment of mortgages payable	(1,186)	
		61,331
Expenditures capitalized to building improvements		5,484
Foreign exchange difference		(31,703)
Depreciation and amortization		(30,898)
Closing balance - March 31, 2010		$4,129,070

The REIT acquired four properties during the period ended March 31, 2010. These acquisitions less mortgages assumed were funded from the REIT's general operating facility and from funds received upon the sale of properties. There were no properties acquired during the year ended December 31, 2009.

2010 Acquisitions:

Property	Year Built	Property Type	Date Acquired	Square Footage	Purchase Price ($ Millions)	Tenant Name	Remaining Lease Term (years)
7919 Day Dr., Parma, OH	2008	Retail	Feb 26, 2010	92,634	$18.9	Giant Eagle	20
2951 SW Wanamaker Rd., Topeka, KS	2008	Retail	Mar 12, 2010	75,149	14.9	Hy-Vee	20
115-118 Wilmar Ave., Grand Island, NE	2008	Retail	Mar 12, 2010	83,331	13.2	Hy-Vee	20
9400 E. 350 Highway, Raytown, MO	2009	Retail	Mar 12, 2010	66,900	14.1	Hy-Vee	20
Total				318,014	$61.1		

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

The REIT assumed $36.3 million of mortgages payable, bearing interest at a contractual rate of 6% per annnum, on these properties. Each mortgage is for a term of twenty years and is non-recourse to the REIT but has recourse to the specific property to which the mortgage applies. The REIT's levered return from these acquisitions is expected to be 10.0%.

The portfolio continues to remain in good condition. The average age of the total portfolio from the date built or renovated is 16.4 years at March 31, 2010 (December 31, 2009 - 16.3 years) and the average age of properties by type of asset is as follows:

Average Age by Type of Asset	March 31, 2010 (years)	December 31, 2009 (years)
Office	**18.7**	18.4
Industrial	**17.1**	16.9
Retail	**11.9**	12.1
Total	**16.4**	16.3

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 net book value of income properties expressed by type of asset and by region is as follows:

Net Book Value by Type of Asset (millions)	March 31, 2010	December 31, 2009
Office	**$1,557**	$1,565
Industrial	**1,368**	1,388
Retail	**1,204**	1,172
	$4,129	$4,125

Net Book Value by Region (millions)	March 31, 2010	December 31, 2009
Ontario	**$1,752**	$1,763
Alberta	**592**	595
Other	**430**	433
Quebec	**238**	238
Canada	**3,012**	3,029
United States	**1,117**	1,096
Total	**$4,129**	$4,125

Capital expenditures are now either capitalized and depreciated or expensed in the year incurred. As a result, the REIT expects to incur the following costs:

Year	Total Amount Expected to be Incurred	Amount Expected to be Capitalized	Amount Expected to be Expensed to Property Operating Costs	Total Expected Recovery	Amount Expected to be Recovered in the Year Incurred	Amount Expected to be Recovered thereafter
2010 *	$18 million	$9 million	$9 million	$17 million	$12 million	$5 million
2011	$15 million	$10 million	$5 million	$12 million	$10 million	$2 million

* For the balance of the year

The information contained in the table above is based on current tenancies in place and management's estimates of these costs being recovered through tenants leases.

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, including expected capitalized interest, and net of rent received during the construction period. The budget includes the cost to construct 1,360 parking stalls. The total budget includes approximately $36 million in development cost contingencies. The REIT has entered into fixed price contracts amounting to approximately 84% of the budgeted $1.1 billion of hard construction costs. As a result, together with the costs incurred to date, the REIT has effectively locked in approximately 89% of the total budget before contingencies. See Section V for a discussion on development and financing risk relating to the Bow.

The REIT is expecting to incur approximately $210 million of the Bow's development costs over the next six 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 approximately $94 million. Rent step ups will be 0.75% per annum on the office space and 1.5% per annum on the parking income for the full 25-year term. During the three months ended March 31, 2010, the REIT incurred additional costs of $107.2 million in this project to bring the REIT's total investment to $826.4 million (December 31, 2009 - $719.2 million). Structural steel erection has now reached the 45th floor. Metal deck installation is complete to the 42nd floor.

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 2% or $2.1 million from $125.2 million at December 31, 2009 to $127.3 million at March 31, 2010 with a corresponding increase to rentals from income properties.

Cash and cash equivalents

Cash and cash equivalents decreased to $15.2 million at March 31, 2010 from $109.2 million at December 31, 2009 primarily due to the continued funding of properties under development and the purchase of income properties.

Other Assets (in thousands of dollars)	March 31, 2010	December 31, 2009
Tenant inducements	**$29,424**	$29,797
Leasing expenses	**27,218**	27,542
Prepaid expenses and sundry assets	**15,956**	12,811
Restricted cash	**14,755**	20,001
Future income tax assets	**14,513**	14,316
Accounts receivable	**7,749**	6,543
Swap derivatives	**3,532**	3,463
Other Assets	**$113,147**	$114,473

Prepaid expenses and sundry assets have increased from $12.8 million at December 31, 2009 to $16.0 million at March 31, 2010 primarily due to an increase in prepaid realty taxes.

Restricted cash decreased from $20.0 million at December 31, 2009 to $14.8 million at March 31, 2010 due primarily to a reduction in funds being held from one tenant who paid their rent in December 2009 for the majority of 2010.

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.

	March 31, 2010	December 31, 2009
Total debt to GBV per the Declaration of Trust (1)	**52.6%**	52.5%
Total debt to GBV	**57.0%**	56.8%
Non-recourse debt as a percentage of total debt	**44.6%**	44.9%
Floating rate debt as a percentage of total debt	**0.3%**	0.4%
Canadian properties total debt to GBV	**57.0%**	56.6%
U.S. properties total debt to GBV	**66.0%**	66.5%

(1) Total debt per the REIT's Declaration of Trust excludes all convertible debentures and the notes payable to Finance Trust and includes guarantees of $118.5 million (December 31, 2009 - $119.2 million). 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 ratios 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

Balance - December 31, 2009	$2,818,476
Principal payments	(23,193)
New mortgages	36,276
Foreign exchange difference	(24,680)
Balance - March 31, 2010	$2,806,879

The mortgages bear interest at the weighted average rate of 6.2% (December 31, 2009 – 6.2%) and mature between 2010 and 2035. The weighted average term to maturity of the REIT's mortgages is 8.2 years (December 31, 2009 - 8.3 years). Going forward based on current market conditions and current lenders, the REIT anticipates being able to refinance all its debt as it matures. Notwithstanding this, the REIT may choose to repay some of its mortgages as they mature. Of the total mortgage balance, only 3.2% will mature in 2010. The mortgages coming due before the end of 2010 bear interest at a weighted average rate on maturity of 6.2%. For a further discussion of interest rate risk, please see "Risks and Uncertainties".

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.
Segmented disclosure by geographic location is provided as follows:

(in thousands of dollars)	**March 31, 2010**	December 31, 2009
Canada	**$1,932,915**	$1,950,224
United States	**873,964**	868,252
Total	**$2,806,879**	$2,818,476

Debentures Payable

	Maturity Date	Contractual Interest Rate	Effective Interest Rate	Conversion Price	Face Value	**Carrying Value March 31, 2010**	Carrying Value December 31, 2009
2013 Convertible Debentures	June 30, 2013	6.65%	9.10%	$23.11	$115 million	**$107.2 million**	$106.8 million
2014 Convertible Debentures	December 31, 2014	6.75%	12.30%	$14.00	$149.9 million	**120.5 million**	119.4 million
2017 Convertible Debentures	June 30, 2017	6.00%	8.60%	$19.00	$175 million	**151.3 million**	150.8 million
Series A Senior Debentures	February 3, 2015	5.20%	5.40%	n/a	$115 million	**114.0 million**	-
Series B Senior Debentures	February 3, 2017	5.90%	6.06%	n/a	$115 million	**114.0 million**	-
Non-Convertible Debentures	-	11.50%	12.90%	n/a	-	**-**	188.8 million
					$669.9 million	**$607.0 million**	$565.8 million

Debentures payable increased by $41.2 million to $607.0 million at March 31, 2010. During the quarter the REIT issued Series A and Series B Senior Debentures with a carrying value of $228 million in aggregate, partially offset by the repayment in full of the Non-Convertible Debentures which had a carrying value of $188.8 million at December 31, 2009.

Series A Senior Debentures and Series B Senior Debentures:

In February 2010, the REIT issued $115 million Series A unsecured senior debentures (the "Series A Senior Debentures"), bearing interest at the annual contractual rate of 5.20% and an effective interest rate of 5.40%. The Series A Senior Debentures mature on February 3, 2015, and interest is paid semi-annually on February 3 and August 3. On issuance, the REIT recorded a liability of $114.0 million, net of issue costs of $1.0 million.

In February 2010, the REIT issued $115 million Series B unsecured senior debentures (the "Series B Senior Debentures"), bearing interest at the annual contractual rate of 5.90% and an effective interest rate of 6.06%. The Series B Senior Debentures mature on February 3, 2017, and interest is paid semi-annually on February 3 and August 3. On issuance, the REIT recorded a liability of $114.0 million, net of issue costs of $1.0 million.

At its option, the REIT may redeem any of the Series A Senior Debentures or Series B Senior Debentures, (collectively "Senior Debentures"), in whole at any time, or in part from time to time, prior to maturity on payment of a redemption price equal to the greater of (i) the Canada Yield Price as defined in the Supplemental Trust Indenture and (ii) par, together in each case with accrued

and unpaid interest to the date fixed for redemption. The REIT will give notice of any redemption at least 30 days but not more than 60 days before the date fixed for redemption. Where less than all of any Senior Debentures are to be redeemed pursuant to their terms, the Senior Debentures to be so redeemed will be redeemed on a pro rata basis according to the principal amount of Senior Debentures registered in the respective name of each holder of Senior Debentures or in such other manner as the Indenture Trustee may consider equitable.

The Senior Debentures have covenants relating to the maintenance of an adjusted interest coverage ratio of 1.65 or better, the limiting of indebtedness to asset of 65% and the maintenance of an Adjusted Unitholders' Equity of not less than $1 billion.

The Senior Debentures are rated BBB (with a Stable trend) by Dominion Bond Rating Services Limited ("DBRS").

In February 2010, the REIT repaid the outstanding Non-Convertible Debentures having an aggregate face value of $200 million for a total repurchase price of $230 million. The repurchase price included accrued interest of $2 million. The REIT recognized a one-time non-recurring charge to the combined statement of earnings of $38 million, representing the difference between the repurchase price, excluding accrued interest expense, and the carrying value of the Non-Convertible Debentures of $189 million.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased by $20.6 million from $167.0 million at December 31, 2009 to $187.6 million at March 31, 2010. The change is partially due to an increase in accruals relating to properties under development and tenant inducements. These accruals at March 31, 2010 totalled $80 million as compared to $74.5 million at December 31, 2009. Also included in accrued liabilities is the total interest accrued to date on the non-recourse mortgages under default of $13.8 million (December 31, 2009 - $11.7 million). Other payables and accruals increased as a result of transactions occurring in the normal course of business operations including an increase of $8.8 million due to increased interest accrued on the 2013 and 2014 Convertible Debentures as interest was paid on these debentures in December 2009.

EQUITY

Unitholders' Equity

Unitholders' equity decreased by $43.6 million between December 31, 2009 and March 31, 2010. The decrease is due primarily to the net loss and the 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, Normalized Funds from Operations and Adjusted Funds from Operations

Funds from operations ("FFO"), normalized funds from operations ("NFFO") and adjusted funds from operations ("AFFO") are not measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. FFO, NFFO 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, 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 or swap and option derivatives in their calculation of FFO. The Trusts' method of calculating FFO, NFFO and AFFO may differ from other issuers' methods and accordingly may not be comparable to similar measures presented by other issuers.

The use of FFO, NFFO and AFFO, combined with the required GAAP presentations, have been presented for the purpose of improving the understanding of operating results of the Trusts by the investing public.

FUNDS FROM OPERATIONS AND NORMALIZED FUNDS FROM OPERATIONS

	Three months ended March 31	
(in thousands of dollars except per unit amounts)	**2010**	2009
Net earnings (loss)	**($17,260)**	$22,098
Add (deduct)		
Mortgage interest accruals on non-recourse mortgage defaults	**2,410**	2,341
Depreciation and amortization	**31,198**	31,994
Impairment loss on income properties	**-**	8,229
Gain on sale of income properties	**(3,633)**	(424)
Future income taxes	**1,518**	4,515
Net earnings attributable to non-controlling interest	**(728)**	407
Operating income from discontinued operations	**104**	(1,326)
Funds from operations – continuing operations	**13,609**	67,834
Funds from operations – discontinued operations	**(63)**	2,545
Funds from operations	**$13,546**	$70,379
Add (deduct)		
Net (gain) loss on foreign exchange and swap derivatives	**3,459**	(4,895)
Additional recoveries for capital expenditures in excess of items expensed in property operating costs	**(3,432)**	(1,051)
Loss on repayment of debentures	**38,834**	-
Normalized funds from operations	**$52,407**	$64,433
Weighted average number of units (in thousands of units adjusted for conversion of non-controlling interest)	**149,309**	147,496
Diluted weighted average number of units (in thousands of units) for the calculation of FFO	**149,772**	147,496
Funds from operations per unit (basic – adjusted for conversion of non-controlling interest)	**$0.09**	$0.48
Funds from operations per unit (diluted)	**$0.09**	$0.48
Diluted weighted average number of units (in thousands of units) for the calculation of NFFO	**149,772**	147,496
Normalized funds from operations per unit (basic - adjusted for conversion of non-controlling interest	**$0.35**	$0.44
Normalized funds from operations - diluted	**$0.35**	$0.44

Normalized funds from operations adjusts funds from operations for: the net gain or loss on foreign exchange and swap derivatives as these are non-cash items which will vary from quarter to quarter; the additional recoveries for capital expenditures in excess of items expensed in property operating costs also vary from quarter to quarter and in the view of the Trust's management, this volatility is not indicative of the Trust's performance, and the loss on repayment of debentures is a one-time, non-recurring item and as such is not in the normal course of operations. FFO is reconciled to AFFO which is reconciled to cash provided by operations.

The primary reasons for the decrease of $12.0 million in normalized funds from operations between Q1 2010 and Q1 2009 are generally due to the following items:

- A decrease of $1.4 million in property operating income due to tenants who filed for protection under Chapter 11 of the U.S. Bankruptcy Code and subsequently terminated their leases;

- A decrease of $3.9 million in property operating income due to the average U.S./Canadian dollar foreign exchange rate of $1.04 for Q1 2010 as compared to $1.25 during Q1 2009;
- A decrease of $0.6 million due to higher property management fees;
- A decrease of $2.8 million for higher interest expense;
- An decrease of $0.9 million due to lower interest income and higher trust expenses;
- A decrease of $2.6 million from properties sold between January 1, 2009 and March 31, 2010;

ADJUSTED FUNDS FROM OPERATIONS

	Three months ended March 31	
(in thousands of dollars except per unit amounts)	**2010**	2009
Funds from operations	**$13,546**	$70,379
Add (deduct)		
Straight-lining of contractual rent	**(1,930)**	(4,021)
Rent amortization	**1,170**	929
Effective interest rate accretion	**2,563**	580
Unit-based compensation	**297**	63
Additions to tenant expenditures	**(1,395)**	(1,616)
Capital expenditures	**(5,484)**	(122)
Net (gain) loss on foreign exchange and swap derivatives	**3,459**	(4,895)
Adjusted funds from operations	**$12,226**	$61,297
Weighted average number of units (in thousands of units adjusted for conversion of non-controlling interest)	**149,309**	147,496
Diluted weighted average number of units (in thousands of units) for the calculation of AFFO [(1)]	**149,772**	152,472
Adjusted funds from operations per unit (basic - adjusted for conversion of non-controlling interest)	**$0.08**	$0.42
Adjusted funds from operations per unit (diluted)	**$0.08**	$0.41
Cash distributions paid	**$0.18**	$0.18
Payout ratio	**225.0%**	42.9%

(1) The 2013 convertible debentures are dilutive for the 2009 period. Contractual debenture interest for the three months ended March 31, 2009 of $1.9 million is added to AFFO and 4,976,201 units are included in the diluted weighted average number of units outstanding for that period.

Excluding the non-recurring charge to redeem the Non-Convertible Debentures, basic AFFO per unit would have been $0.34 for the three months ended March 31, 2010 and the payout ratio would have been 53%.

The primary reasons for the decrease of $49.1 million in AFFO for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009 are due the following items:

- A decrease of $38.8 million due to the one time loss on the repayment of the Non-Convertible Debentures;

- A decrease of $1.4 million in property operating income due to tenants who filed for protection under Chapter 11 of the U.S. Bankruptcy Code and subsequently terminated their leases;
- A decrease of $3.9 million in property operating income due to the average U.S./Canadian dollar foreign exchange rate of $1.04 for Q1 2010 as compared to $1.25 during Q1 2009;
- A decrease of $0.6 million due to higher property management fees;
- A decrease of $0.8 million for higher interest expense (net of the mortgage interest accrued on the non-recourse mortgage defaults and the effective interest rate accretion);
- A decrease of $0.9 million due to lower interest income and higher trust expenses;
- A decrease of $2.3 million from properties sold between January 1, 2009 and March 31, 2010;
- A decrease of $5.1 million due to higher capital and tenant expenditures;
- An increase of $2.4 million in additional rent recoverable from tenants in accordance with their leases for items which were capitalized to building improvements net of items which were expenses in property operating costs; and
- An increase of $1.6 million due to rent increases throughout the portfolio.

The following is a reconciliation of the Trusts' adjusted funds from operations to cash provided by operations.

	Three months ended March 31	
(in thousands of dollars)	**2010**	2009
Adjusted funds from operations	**$12,226**	$61,297
Straight-lining of contractual rent	**1,930**	4,021
Additions to tenant expenditures	**1,395**	1,616
Capital expenditures	**5,484**	122
Change in other non-cash operating items	**4,799**	4,774
Mortgage interest accruals on non-recourse mortgage defaults	**(2,410)**	(2,341)
Loss on repayment of debentures	**38,834**	-
Realized loss on foreign exchange	**(2)**	(20)
Cash provided by operations	**$62,256**	$69,469

Capital Resources

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

(in thousands of dollars)	Three months ended March 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008
Cash provided by operating activities	**$62,256**	$238,941	$233,200
Net earnings (loss)	**(17,260)**	86,525	97,706
Actual cash distributions paid or payable relating to the period	**24,790**	97,726	161,839
Excess of cash provided by operating activities over cash distributions paid	**37,466**	141,215	71,361
Excess (shortfall) of net earnings (loss) over cash distributions paid	**(42,050)**	(11,201)	(64,133)

For the three months ended March 31, 2010, cash provided by operating activities exceeded cash distributions. Management expects this trend to continue.

Cash distributions normally exceed net earnings due to non-cash items which are deducted or added in determining net earnings. Non-cash items such as impairment losses, future income taxes and recoveries, unrealized gains or losses, depreciation and amortization, while deducted from or added to net earnings have no impact on cash available to pay current distributions. For the three months ended March 31, 2010, there is also a shortfall of net earnings over cash distributions primarily due to the one time non-recurring loss to repay the non-convertible debentures.

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, 2010, the REIT is 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, the Circuit City distribution warehouse and the two Bruno's Supermarkets mortgages following the Chapter 11 filings of the tenants. The REIT has handed over control of seven of the properties to the respective mortgage companies 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 expires on December 31, 2011 and is secured by income properties. 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, 2010, approximately $241.9 million was still available under this facility.

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 REIT (excluding mortgages related to discontinued operations) including payments due as at March 31, 2010 for the next 4.75 years and thereafter:

	Payments Due by Period				
Contractual Obligations (in thousands of dollars)	2010 *	2011-2012	2013-2014	2015 and thereafter	Total
Mortgages payable	$86,078	$534,710	$473,103	$1,569,617	$2,663,508
2013 Convertible debentures	-	-	115,000	-	115,000
2014 Convertible debentures	-	-	149,990	-	149,990
2107 Convertible debentures	-	-	-	175,000	175,000
Series A Senior Debentures				115,000	115,000
Series B Senior Debentures				115,000	115,000
Total Contractual Obligations	$86,078	$534,710	$738,093	$1,974,617	$3,333,498

* For the balance of the year

DBRS provides credit ratings of debt securities for commercial entities. A credit rating generally provides an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments. Rating categories range from highest credit quality (generally AAA) to default payment (generally D).

DBRS has confirmed that H&R REIT has a credit rating of BBB with a Stable trend as at March 31, 2010. A credit rating of BBB by DBRS is generally an indication of adequate credit quality, where protection of interest and principal is considered acceptable. A credit rating of BBB - or higher is an investment grade rating. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be withdrawn or revised by DBRS at any time. The credit rating is reviewed periodically by DBRS.

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.

(in thousands of dollars)	Costs incurred to date	Remaining Costs	Budget
Land	$60,804	$ -	$60,804
Financing costs	16,056	38,817	54,873
Capitalized interest on the REIT's costs as incurred	78,734	136,988	215,722
Soft costs	116,728	76,914	193,642
Hard costs	582,265	514,778	1,097,043
Recoveries and other income	(28,196)	(82,695)	(110,891)
Contingency	-	35,529	35,529
Cost incurred to date/remaining costs/budget	826,391	720,331	1,546,722
Less capitalized interest on the REIT's costs incurred	(78,734)	(136,988)	(215,722)
Total costs incurred to date/budget less capitalized interest	$747,657	$583,343	$1,331,000

Both the REIT and Altus Group Cost Consulting believe the remaining contingencies to be sufficient at this stage of the project as the forecasted contingency at the end of the project is projected to be in the $27 million to $43 million range.

The chart below shows the projected source of funds and the funds required for the 2010-2011 period.

(In millions of dollars)	
Construction facility	$425
Expected cash retained from operations *	96
Available cash and undrawn credit facilities	257
Collection of mortgage receivable	58
Funds required to complete the Bow	(583)
Annual principal mortgage payments	(172)
Expected mortgage maturity repayments	(14)
Surplus of Funds	$67

* after giving effect to the announced distribution policy (see subsequent events).

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 to fund future acquisitions, capital expenditures and commitments was in excess of $2 billion as at March 31, 2010. This represents the amount by which the REIT can increase its debt, subject to market availability, before the REIT reached its maximum debt limitation of 65% of debt to its GBV of assets.

The following summarizes term debt maturities for existing mortgages:

Year	Mortgage Debt due on Maturity ($000's)	Number of Mortgages	2010 Estimated Property Operating Income ($000's) (1)	Loan to Value (2)
2010 *	$13,881	6	$4,163	27%
2011	70,246	11	16,220	32%
2012	266,289	21	47,119	42%
2013	101,284	10	23,009	33%
2014	182,632	8	26,566	52%
	$634,332	56	$117,077	41%

* For the balance of the year

(1) Converting U.S. dollars to Canadian dollars at an exchange rate of 1.02

(2) Using a 7.5% capitalization rate ("cap rate")

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, 2010, such guarantees amounted to $42.8 million (December 31, 2009 - $43.3 million), expiring between 2011 and 2016 and no amount has been provided for in the combined 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.

In addition, the REIT continued to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable thereunder until such debts are extinguished or the lenders agree to release the REIT's covenants. At March 31, 2010, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk is

approximately $118.5 million (December 31, 2009 - $119.2 million) with expiries between 2013 and 2018. There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in the financial statements.

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, 2010, the REIT had no forward contracts in place.

Where appropriate, the REIT also uses forward exchange contracts to lock in foreign exchange rates. This strategy provides certainty in the foreign exchange rates on transactions that will occur in the future. At March 31, 2010, the REIT had no such contracts in place. See subsequent events for further information.

SECTION III

SUMMARY OF QUARTERLY RESULTS

(unaudited) (in thousands of dollars except per unit amounts)	**March 31, 2010**	December 31, 2009 [1]	September 30, 2009 [1]	June 30, 2009 [1]
Rentals from income properties	$151,223	$151,668	$148,209	$148,997
Mortgage interest and other income	1,274	1,621	1,602	1,175
Net property operating income	24,965	21,606	23,898	28,413
Net earnings (loss) from continuing operations	(20,660)	31,488	7,643	10,752
Net earnings (loss) per unit from continuing operations				
(basic)	(0.14)	0.22	0.05	0.08
(diluted)	(0.14)	0.20	0.05	0.08
Net earnings (loss)	($17,260)	$29,870	$15,656	$18,901
Net earnings (loss) per unit				
(basic)	(0.12)	0.21	0.11	0.13
(diluted)	(0.12)	0.19	0.10	0.13

	March 31, 2009[1]	December 31, 2008[1]	September 30, 2008[1]	June 30, 2008[1]
Rentals from income properties	$156,292	$151,257	$146,863	$148,530
Mortgage interest and other income	1,495	1,045	1,015	641
Net property operating income	30,540	26,507	25,891	27,448
Net earnings (loss) from continuing operations	20,413	5,140	(28,066)	19,865
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

[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 Trust' combined 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. Estimates are used when accounting for such items as the embedded prepayment and extension options and notes payable. The Trusts' combined 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 1 of the December 31, 2009 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 undiscounted 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. During 2010, no impairments were recorded. During 2009, the REIT recorded an impairment loss of $14.8 million relating to the properties formerly tenanted by Circuit City and Bruno's Supermarkets.

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 2010 or 2009.

Depreciation of Income Properties

Upon 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 in 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.

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 currently implementing a conversion plan to transition financial reporting to IFRS as issued by the International Accounting Standards Board ("IFRS-IASB") but at this time, the Trusts cannot fully quantify the impact that the adoption of IFRS will have on the classification or valuation of the Trusts' 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 Trusts 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 REIT. Based upon the current state of IFRS-IASB, this phase identified a number of topics that may possibly impact the REIT's 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 have finalized their initial assessment phase.

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 this detailed assessment phase will progress throughout 2010. The Trusts have identified those major factors which will impact the financial statements. See Status of Convergence Plan.

Design Phase

The Design Phase will integrate the recommendations from the detailed assessment phase into the Trusts' underlying financial systems and processes that are necessary for the Trusts 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 Q4 2010.

Testing & Implementation Phase

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

Status of Convergence Plan

Currently, an analysis of the impact of all IFRS standards has been assessed and recommendations on policy choices, where applicable, have been presented to the Board of Trustees. Preliminary decisions regarding policy choices have been made, however are still under review due to some areas of uncertainly. As such, action plans have been created to implement these policy choices. These plans detail what is required to implement each standard and the information and related systems requirements to gather and track data for the extensive accounting and disclosure requirements under the transition to IFRS and on a continual basis once the adoption of these new standards has been completed.

Where significant impacts of the transition have already been identified, work has commenced on solutions which require a significant amount of time to resolve. These issues include but may not be limited to, the identification of information technology initiative, the possibility of amendments to the Declarations of Trust for both Trusts and components of debt covenants which need to be addressed to ensure these are completed on time.

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. The significant IFRS differences that will potentially have an impact on the Trusts' financial statements include the following:

1) Under Canadian GAAP, issued units of the Trusts are presented as equity in the combined balance sheet. As IFRS is currently drafted and generally interpreted by the Canadian accounting profession, trust units may be regarded under IFRS as a liability rather than equity. This interpretation is influenced by section 9.01 of the Declaration of Trust of the REIT which indicates that, in each year, the aggregate amount payable by the Trusts for distributions to unitholders shall not be less than the Trusts' taxable income for the year, as calculated in accordance with the Tax Act after all permitted deductions under the Tax Act have been taken. Under IFRS, a liability arises where "financial instruments" contain a "contractual obligation to deliver cash or another financial asset to another entity".

   A trust unit is a financial instrument for both Canadian GAAP and IFRS purposes. A mandatory requirement to distribute taxable income or distributable cash may constitute a "contractual requirement to deliver cash", resulting in trust units being considered as a liability for purposes of IFRS. Should this interpretation be correct and applicable to the Trusts, the financial statements of the Trusts would be materially affected upon adoption of IFRS. Accordingly, and as part of the REIT's transition to IFRS (as required by 2011 with comparatives for 2010), management, subject to approval by unitholders, will amend the Declaration of Trust of the REIT to delete the requirement in section 9.01 that the REIT must distribute all of its taxable income and have all distributions subject to the absolute discretion of the trustees. This amendment has been proposed in the 2010 Management Information Circular. Should the equity be classified as debt, distributions would then be classified as interest expense.

2) Under Canadian GAAP, the REIT measures its income properties using the historical cost model and recognizes various tangible and intangible components of the income property. Under IFRS, the REIT will have a choice of whether to use the historical cost model or the fair value model. If the fair value model is selected, income properties will be carried on the combined balance sheet at their fair values, and changes in fair value each period will be recorded in the combined statement of earnings. If the historical cost model is selected, the REIT will be required to disclose the fair value of income properties in the notes to the combined financial statements.

   Under IFRS 1 the REIT may choose to adopt either valuation model for its income properties prospectively. In addition, the REIT may also elect under IFRS 1 to use the fair value as the deemed cost of these income properties and upon initial implementation of IFRS regardless of whether it chooses the fair value or cost method in accordance with IAS 40. At conversion the resulting adjustments of this election are recorded directly to unitholders' equity. Though this standard has been analyzed in detail by both the REIT and the Board of Trustees, a decision has not been finalized regarding what policy choice the REIT will adopt for transition and going forward.

3) Under Canadian GAAP, upon the purchase of a property, all transaction costs (i.e. commissions, land transfer tax, appraisals, etc.), associated with the purchase are capitalized to the cost of the property. Under IFRS, all of these costs may be expensed as part of operations. This may have a material impact on the REIT's FFO, AFFO and net earnings.

4) Under Canadian GAAP, impairment is recognized for assets, other than financial assets, based on estimated fair value when the undiscounted future cash flows from an asset or group of assets is less than their carrying value. Under IFRS, an entity is required to recognize an impairment charge if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or value-in-use, is less than its carrying value. Value in use is the discontinued present value of estimated future cash flows expected to arise from the current use of an asset and from its disposal at the end of its useful life.

   IFRS also requires the reversal of an impairment loss when the recoverable amount is higher than the carrying value (by no more than what the depreciated amount of the asset would have been had the impairment not occurred) unlike Canadian GAAP which does not permit reversals.

5) IFRS only allows for the capitalization of carrying costs, including interest, when properties are in active development, which is generally considered to occur when an entity conducts activities that change the condition of the asset. IFRS also prohibits the capitalization of incidental operating income before or during development.

   Both Canadian GAAP and IFRS require the cessation of capitalization when a property is completed for its intended use.

6) Under Canadian GAAP, the Trusts present a non-classified combined balance sheet. The Trusts will present a classified combined balance sheet under IFRS.

First Time Adoption of IFRS

Upon adoption of IFRS, the Trusts are required to apply IFRS 1, which provides guidance for the initial adoption of IFRS. Included in IFRS 1 are certain optional exemptions from full retrospective applications of IFRS. The optional exemptions expected to be applied are described below:

1) Business Combinations

   The Trusts expect to apply the business combination exemption in IFRS 1 to not apply IFRS 3 business combinations retrospectively to past business combinations. Accordingly, the Trusts will not restate business combinations that take place prior to the January 1, 2010 transition date.

2) Cumulative Translation Difference

   The Trusts expect to elect this exemption to set the previous foreign exchange cumulative translation balances to zero at January 1, 2010, with the balance reclassified to retained earnings.

3) Borrowing Costs

   The Trusts are evaluating whether to derecognize the carrying amounts of previously capitalized interest to the construction of a qualifying asset. The effect of this would be to show a lower cost on the Bow and a higher interest expense.

The reader should be cautioned that these optional exemptions are considered forward looking information and certain project activities and choices may change. The process is on-going as new standards and recommendations are issued by the IASB.

INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the design of the Trusts' internal control over financial reporting during the three months ended March 31, 2010 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.

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.

The Trusts have also established adequate disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance regarding their responsibility of the Trusts' financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP. The Trusts' CEO and CFO assessed, or caused an assessment under their direct supervision, of the design and operating effectiveness of the Trusts' disclosure controls and procedures and internal control over financial reporting (as defined in *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings)* as at March 31, 2010. Based on this assessment, it was determined that the Trusts' disclosure controls and procedures and internal control over financial reporting were appropriately designed and are operating effectively as at March 31, 2010.

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 in the Trusts' annual MD&A for the year ended December 31, 2009, in the REIT's Annual Information Form and below.

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. See subsequent events for further details. 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 Trusts intend 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. The REIT's construction facility for the Bow provides, among other things, that distributions (other than certain unit distributions) cannot exceed 60% of funds from operations (as defined for such purpose). Cash available to the REIT for distributions may be reduced from time to time because of items such as principal repayments on debt, tenant allowances, leasing commissions and capital expenditures. The REIT may be required to use part of its 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 Bow, budgeted to cost approximately $1.5 billion (including capitalized interest), is 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 84% of the hard cost budget. Together with costs incurred to date, the REIT has effectively locked in approximately 89% of the total budget before contingencies. 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 during April 2009. There were amendments to the construction facility in the first quarter of 2010. The initial maturity date of the facility is October 22, 2012. 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 1.25:1.0 and (iii) unitholders equity of not less than the sum of $1.35 billion 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) with a maturity date of not less than 11 months from the date of the initial borrowing under the facility, 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 60% of funds from operations (as defined for such purpose). As a result, the REIT is limited by such covenants and restrictions. These conditions have not been satisfied as at March 31, 2010 nor has any amount been drawn upon the credit facility. Please see notes 18 and 24 of the March 31, 2010 unaudited combined financial statements for further information. See subsequent events for additional changes to the Bow construction facility.

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 individually 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 an A (low) rating by a recognized rating agency.

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 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 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 by June 30, 2010. 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 in the form of U.S. Holdco notes owed to Finance Trust and H&R Portfolio Limited Partnership. As at March 31, 2010, U.S. Holdco owed $130.3 million to Finance Trust and H&R Portfolio Limited Partnership which is eliminated on the combined financial statements.

U.S. Holdco intends to treat the U.S. Holdco notes as indebtedness for U.S. federal income tax purposes. If the Internal Revenue Service ("IRS") or a court were to determine that the U.S. Holdco notes should be treated for U.S. federal income tax purposes as equity rather than debt, the interest on the notes could be treated as a dividend, and interest on the notes would not be deductible for U.S. federal income tax purposes. In addition, if the IRS were to determine that the interest rate on the U.S. Holdco notes did not represent an arm's length rate, any excess amount over arm's length would not be deductible and could be recharacterized as a dividend payment instead of an interest payment. This would significantly increase the U.S. federal income tax liability of U.S. Holdco, potentially including the tax liability for prior years in which U.S. Holdco has claimed a deduction for interest paid on the U.S. Holdco Notes. In addition, U.S. Holdco could be subject to penalties. The increase in tax liability could materially adversely affect U.S. Holdco's ability to make interest payments on the U.S. Holdco notes or the REIT's ability to make distribution on its units. Additionally, payments of interest on the U.S. Holdco notes to non-U.S. holders of Stapled Units could be subject to withholding taxes.

To the extent that the REIT or a related party provided debt financing to U.S. Holdco (e.g., by acquiring U.S. Holdco notes), in determining income for U.S. tax purposes, U.S. Holdco is subject to possible limitations on the deductibility of interest, if any, paid to the REIT. Section 163(j) of the Internal Revenue Code (the "Code") applies to defer U.S. Holdings' deduction of interest paid on 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, 2009, USD $0.1 million of USD $0.1 million interest expense was disallowed by Section 163(j) of the Code, but such disallowance had no cash effect on U.S. Holdco. The REIT intends to take the position that, due to the treatment of the Finance Trust as a grantor trust that is disregarded for U.S. federal tax purposes, the interest paid to Finance Trust is treated as having been paid to the holders of the Finance Trust units and is therefore not subject to section 163(j). If section 163(j) applied to interest paid to the Finance Trust, 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.

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 to the extent possible, on a bonded basis) and by attempting to obtain long-term financing as early as possible during construction.

Debentures

The likelihood that purchasers of the 2013 Convertible Debentures, the 2014 Convertible Debentures, the 2017 Convertible Debentures and the Series A and B Senior Debentures (as defined in the financial statements) will receive payments owing to them under the terms of such debentures will depend on the financial health of the REIT and its creditworthiness. In addition, such debentures are unsecured obligations of the REIT and are subordinate in right of payment to all the REIT's existing and future senior indebtedness as defined in each such respective trust indenture. 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 such debentures only after it has paid all of its senior 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. Finance Trust is a creditor of U.S. Holdco, a subsidiary of the REIT. A parent entity is entitled only to the residual equity of its subsidiaries after all debt obligations of its subsidiaries are discharged. In the event of bankruptcy, liquidation or reorganization of the REIT, holders of indebtedness of the REIT (including holders of the 2013 Convertible Debentures, the 2014 Convertible Debentures and the 2017 Convertible Debentures) may become subordinate to lenders to the subsidiaries of the REIT. 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), to amend and modify the ranking of any 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.

SUBSEQUENT EVENTS

In April 2010, the REIT received approximately $58 million as repayment of a mortgage receivable.

In May 2010, there was an amendment to the Bow construction facility. The lenders approved an increase to the limit on distributions from 60% to 70% of funds from operations.

In May 2010, the Trustees approved an increase of one cent per month to the combined distributions of the REIT and Finance Trust effective from July 2010. This will effectively bring the combined annual distribution to 84 cents.

In May 2010, the REIT entered into a foreign exchange forward contract with CIBC effectively locking the REIT's rate to exchange $2 million USD per month at 1.0402 for a 2-year period.

ADDITIONAL INFORMATION

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