Unaudited Condensed Interim Combined Financial Statements of

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

For the three months ended March 31, 2011 and 2010

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

Unaudited Condensed Interim Combined Statement of Financial Position
(In thousands of Canadian dollars)

	March 31 2011	December 31 2010	January 1 2010
Assets			
Real estate assets			
Investment properties (note 4)	**$ 4,526,628**	$ 4,582,616	$ 4,621,419
Properties under development (note 5)	**1,375,309**	1,268,331	794,534
Accrued rent receivable	**157,568**	156,938	147,524
	6,059,505	6,007,885	5,563,477
Mortgages and amount receivable	**3,000**	3,000	63,789
Assets classified as held for sale (note 6)	**-**	-	19,035
Other assets (note 7)	**32,420**	34,683	51,607
Cash and cash equivalents (note 8)	**41,281**	10,730	109,224
	$ 6,136,206	$ 6,056,298	$ 5,807,132
Liabilities and Unitholders' Equity			
Liabilities			
Mortgages payable (note 9)	**$ 2,630,212**	$ 2,706,707	$ 2,818,476
Debentures payable (note 10)	**1,170,687**	965,828	654,655
Below-market leases	**57,318**	57,658	59,602
Non-controlling interest (note 11)	**119,627**	105,652	84,010
Bank indebtedness (notes 12(a) and 12(b))	**63,668**	89,045	13,556
Unit options payable (note 13(a))	**6,057**	3,409	2,923
Derivative instruments (notes 9 and 12(b))	**2,762**	3,317	-
Accounts payable and accrued liabilities	**174,332**	170,544	169,186
Deferred tax liability (note 22)	**-**	-	469,842
	4,224,663	4,102,160	4,272,250
Unitholders' equity	**1,911,543**	1,954,138	1,534,882
	$ 6,136,206	$ 6,056,298	$ 5,807,132

See accompanying notes to condensed interim combined financial statements.

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

Unaudited Condensed Interim Combined Statements of Comprehensive Income (Loss)
(In thousands of Canadian dollars)

	Three months ended March 31	
	2011	2010
Property operating income:		
Rentals from investment properties (note 15)	**$ 153,294**	$ 152,580
Property operating costs	**(48,868)**	(49,964)
	104,426	102,616
Finance costs:		
Finance income	**366**	1,274
Finance cost - operations (note 16)	**(42,620)**	(45,543)
Gain (loss) on extinguishment of debt (notes 4 and 10(c))	**14,785**	(38,834)
Loss on change in fair value (note 17)	**(56,920)**	(29,598)
	(84,389)	(112,701)
Amortization and impairment expense (note 18)	**(44,317)**	(39,236)
Trust expenses	**(4,770)**	(3,634)
Gain on sale of investment properties	**-**	3,633
Net loss on foreign exchange	**(2,199)**	(3,560)
	(135,675)	(155,498)
Net loss before income taxes	**(31,249)**	(52,882)
Income tax expense (note 22)	**(65)**	(4,210)
Net loss	**(31,314)**	(57,092)
Other comprehensive loss:		
Unrealized loss on translation of U.S. denominated foreign operations	**(3,134)**	(2,900)
Transfer of realized loss on cash flow hedges to net income	**96**	92
	(3,038)	(2,808)
Total comprehensive loss	**$ (34,352)**	$ (59,900)

See accompanying notes to condensed interim combined financial statements.

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

Unaudited Condensed Interim Combined Statements of Change in Unitholders' Equity
(In thousands of Canadian dollars)

UNITHOLDERS' EQUITY	Value of units	Accumulated net income	Accumulated distributions	Equity component of warrants and debentures	Accumulated other comprehensive loss (note 14)	Total
Unitholders' equity, January 1, 2010 (note 3)	$ 2,182,289	$ 727,175	$ (1,371,328)	$ -	$ (3,254)	$ 1,534,882
Proceeds from issuance of units	2,097	-	-	-	-	2,097
Net loss	-	(57,092)	-	-	-	(57,092)
Distributions to unitholders (note 13(b))	-	-	(25,897)	-	-	(25,897)
Conversion of convertible debentures	12	-	-	-	-	12
Other comprehensive loss	-	-	-	-	(2,808)	(2,808)
Unitholders' equity, March 31, 2010	2,184,398	670,083	(1,397,225)	-	(6,062)	1,451,194
Proceeds from issuance of units	33,398	-	-	-	-	33,398
Net income	-	553,692	-	-	-	553,692
Distributions to unitholders	-	-	(87,799)	-	-	(87,799)
Conversion of convertible debentures	7,007	-	-	-	-	7,007
Other comprehensive loss	-	-	-	-	(3,354)	(3,354)
Unitholders' equity, December 31, 2010	2,224,803	1,223,775	(1,485,024)	-	(9,416)	1,954,138
Proceeds from issuance of units	**7,030**	**-**	**-**	**-**	**-**	**7,030**
Issue cost	**(22)**	**-**	**-**	**-**	**-**	**(22)**
Net loss	**-**	**(31,314)**	**-**	**-**	**-**	**(31,314)**
Distributions to unitholders (note 13(b))	**-**	**-**	**(32,956)**	**-**	**-**	**(32,956)**
Conversion of convertible debentures (note 10)	**17,705**	**-**	**-**		**-**	**17,705**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(3,038)**	**(3,038)**
Unitholders' equity, March 31, 2011	**$ 2,249,516**	**$ 1,192,461**	**$ (1,517,980)**	**$ -**	**$ (12,454)**	**$ 1,911,543**

See accompanying notes to condensed interim combined financial statements.

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

Unaudited Condensed Interim Combined Statements of Cash Flows
(In thousands of Canadian dollars)

	Three Months Ended March 31	
	2011	2010
Cash provided by (used in):		
Operations:		
Net loss	**$ (31,314)**	$ (57,092)
Items not affecting cash:		
Rent amortization of tenant inducements (note 15)	**237**	221
Amortization and impairment (note 18)	**44,317**	39,236
Gain on sale of investment properties	**-**	(3,633)
Gain on extinguishment of debt (notes 4 and 10(c))	**(14,785)**	38,834
Deferred income tax recovery (note 22)	**-**	4,098
Loss on change in fair values (note 17)	**56,920**	29,598
Effective interest rate accretion (note 16)	**395**	461
Unrealized loss on foreign exchange	**2,198**	3,558
Unit-based compensation (note 13(a))	**2,794**	1,372
Change in other non-cash operating items (note 19)	**4,764**	6,019
	65,526	62,672
Investing:		
Properties under development	**(107,879)**	(101,922)
Investment properties:		
Net proceeds on disposition of investment properties	**-**	22,241
Acquisitions (note 4)	**(26,600)**	(24,491)
Capital expenditures (note 4)	**(989)**	(5,484)
Leasing expenses and tenant inducements (note 4)	**(4,624)**	(1,395)
Mortgages receivable	**-**	(109)
Restricted cash (note 7)	**7,624**	5,246
	(132,468)	(105,914)
Financing:		
Bank indebtedness	**(25,377)**	(4,244)
Mortgages payable:		
New mortgages payable	**-**	-
Principal repayments	**(29,511)**	(23,193)
Proceeds from issuance of debentures payable	**178,475**	227,933
Repayment of debentures payable (note 10(c))	**-**	(227,752)
Proceeds from issuance of units, net	**146**	11
Distributions to unitholders (note 13(b))	**(26,240)**	(23,811)
	97,493	(51,056)
Increase (decrease) in cash and cash equivalents	**30,551**	(94,298)
Cash and cash equivalents, beginning of year (notes 6 and 8)	**10,730**	109,505
Cash and cash equivalents, end of period (notes 6 and 8)	**$ 41,281**	$ 15,207

Supplemental cash flow information (note 19)

See accompanying notes to condensed interim combined financial statements.

These condensed interim combined financial statements include the accounts of H&R Real Estate Investment Trust (the "REIT") and H&R Finance Trust ("Finance Trust"). These condensed interim 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 both domiciled in Canada. The REIT owns, operates and develops commercial properties across Canada and in the United States. The principal office and centre of administration of the Trusts is located at 3625 Dufferin Street, Suite 500, Toronto, Ontario M3K 1N4. 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 condensed interim 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 condensed interim 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 ensures that until such time as an event of uncoupling occurs, when units are issued by the REIT, units must also be issued by Finance Trust simultaneously so as to maintain the stapled unit structure;
- The sole activity of Finance Trust is to provide capital funding to 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.

1. Basis of preparation:

(a) Statement of compliance

These condensed interim combined financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting* and using accounting policies described herein. These are the Trusts' first International Financial Reporting Standards ("IFRS") condensed interim combined financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), has been applied. The condensed interim combined financial statements do not include all of the information required for full annual financial statements.

IFRS requires an entity to adopt IFRS in its first annual financial statements under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Trusts will make this statement when it issues its 2011 annual financial statements.

1. Basis of preparation (continued):

An explanation of how the transition to IFRS has affected the previously reported financial position, financial performance and cash flows of the Trusts is provided in note 3. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition, being January 1, 2010, reported under Canadian generally accepted accounting principles ("Canadian GAAP") to those reported for those periods and at the date of transition under IFRS.

These condensed interim combined financial statements were approved by the Board of Trustees on June 14, 2011.

(b) Basis of measurement

The condensed interim combined financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position which have been measured at fair value:

(i) Derivative financial instruments;

(ii) Liabilities for cash-settled unit-based payment arrangements; and

(iii) Financial instruments.

(c) Functional currency and presentation

These condensed interim combined financial statements are presented in Canadian dollars, which is the Trusts' functional currency.

The Trusts present their condensed interim combined statement of financial position based on the liquidity method, where all assets and liabilities are presented in ascending order of their liquidity.

(d) Use of estimates and judgements

The preparation of these condensed interim combined financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results may differ from these estimates.

In preparing these condensed interim combined financial statements, the significant judgements made by management applying the Trusts' accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements.

(i) Use of estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

1. Basis of preparation (continued):

- Fair value of investment properties;
- Impairment of investment properties;
- Purchase price allocation;
- Useful lives of investment properties and the significant components thereof used to calculate amortization;
- Fair value of financial instruments; and
- Fair value of unit-based compensation.

(ii) Use of judgements

The key judgements made in applying accounting policies that have the most significant effect on the amounts recognized in these condensed interim combined financial statements are as follows:

- Leases

  The REIT's policy for property rental revenue recognition is described in note 2(g). The REIT makes judgements in determining whether certain leases, in particular those tenant leases with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases where the REIT is lessor, are operating or finance leases. The REIT has determined that all of its leases are operating leases.

- Income taxes

  The REIT is a mutual fund trust and a real estate investment trust pursuant to the Income Tax Act (Canada). Under current tax legislation, the REIT is not liable to pay Canadian income tax provided that its taxable income is fully distributed to unitholders each year. The REIT is a real estate investment trust if it meets prescribed conditions under the Income Tax Act (Canada) relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the REIT Conditions and has assessed its interpretation and application to the REIT's assets and revenue, and it has determined that it qualifies as a real estate investment trust for the period.

- Investment property componentization

  The REIT's accounting policies relating to investment property componentization are described in note 2(c). In applying this policy, judgement is made in determining the degree of componentization for each property.

- Tenant improvements

  The REIT makes judgments with respect to whether tenant improvements provided in connection with a lease enhance the value of the leased property, which determines whether such amounts are treated as additions to investment properties as well as the point in time at which revenue recognition under the lease commences.

2. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these condensed interim combined financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS.

(a) *Basis of combination*

The principles used to prepare condensed interim combined financial statements are similar to those used to prepare condensed interim consolidated financial statements. The condensed interim combined financial statements include the assets, liabilities, unitholders' equity, comprehensive income and operating results of the Trusts, after elimination of the following:

(i) the REIT's notes payable to Finance Trust; and

(ii) the REIT's interest expense and Finance Trust's interest income from the notes payable to Finance Trust.

The foreign exchange gain or loss recorded in net income as a result of exchanging Finance Trust's U.S. dollar note receivable from U.S. Holdco is not eliminated on combination as U.S. Holdco is a U.S. denominated foreign operation of the REIT, which results in the foreign exchange on the note payable being reported in accumulated other comprehensive income.

The combination of the Trusts does not result in the elimination of the equity of Finance Trust as neither of the Trusts hold any interest in the other. The equity of the Trusts will be presented by way of combining the two together. As a result, the creation of Finance Trust will result in an increase to equity for the issuance of such Finance Trust units, similar to the reporting of the distribution of Finance Trust units to unitholders by the REIT.

(b) *Basis of consolidation*

These condensed interim combined financial statements include the accounts of all entities in which the REIT holds a controlling interest. Finance Trust does not hold a controlling interest in any entity. The REIT carries out a portion of its activities through co-ownership agreements and records its proportionate share of assets, liabilities, revenues, expenses, and cash flows of all co-ownerships in which it participates. All material intercompany transactions and balances have been eliminated upon consolidation.

(c) *Investment properties*

Investment properties include commercial properties held to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. Investment properties are measured at cost less accumulated depreciation and impairment losses.

The cost of replacing a major component of a building is recognized in the carrying amount of the building if it is probable that the future economic benefits embodied within the component will flow to the REIT, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized at the time of replacement through the statement of comprehensive income.

Upon acquisition, the REIT performs an assessment of investment properties being acquired to determine whether the acquisition is to be accounted for as an asset acquisition or a business combination. A transaction is considered to be a business combination if the acquired property meets the definition of a business; being an integrated set of activities and assets that are capable of being managed for the purpose of providing a return to the unitholders.

2. Significant accounting policies (continued):

Whether the acquisition is accounted for as an asset acquisition or a business combination, the REIT fair values assets acquired and liabilities assumed including land, building and intangibles such as above- and below-market leases, in-place operating leases and customer relationship value. The REIT expenses transaction costs on business combinations.

(d) *Assets held for sale and discontinued operations*

Non-current assets comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification, and; it is unlikely there will be changes to the plan. Immediately before classification as held for sale, the assets are re-measured in accordance with the REIT's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss. The profit or loss arising on sale of such an asset will be recognized as a gain (loss) on sale.

In accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations* ("IAS 5"), investment properties that constitute a component of the REIT that has either been disposed of or is classified as held for sale are presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and the REIT will not have significant continuing involvement following the disposition. A component of the REIT will generally represent a major line of business or geographical area of operation.

(e) *Depreciation and amortization*

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Land is not amortized. Depreciation and amortization methods, useful lives and residual values are reviewed at each annual reporting date and adjusted as appropriate. Buildings are depreciated on a straight-line basis over their useful lives for a period of approximately 40 years. Building improvements are depreciated over their useful lives, which typically vary between 5 and 20 years. Improvements that do not meet the capitalization criteria are expensed in full in the period incurred. Paving and equipment are depreciated on a straight-line basis over their useful lives, which is typically 10 years. Intangibles resulting from in-place leases and above- and below-market leases are amortized over the related lease terms.

Leasing costs, such as commissions and tenant inducements, are deferred and amortized on a straight-line basis over the terms of the related leases.

(f) *Impairment*

An asset is impaired when its carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

2. Significant accounting policies (continued):

Impairment losses are recognized in profit or loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if an impairment loss had not been recognized.

(g) *Revenue recognition:*

The REIT retains substantially all of the benefits and risks of ownership of its investment properties and therefore, accounts for its leases with tenants as operating leases. Rentals from investment properties include all amounts earned from tenants, including recovery of operating costs.

Rental revenue from investment property is recognized in profit and loss on a straight-line basis over the term of the related lease. The difference between the rental revenue recognized and the amounts contractually due under the lease agreements is recorded in accrued rent receivable. Lease incentives granted are amortized against rental income, over the term of the lease.

(h) *Income taxes:*

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The REIT is a mutual fund trust and a real estate investment trust pursuant to the Income Tax Act (Canada). Under current tax legislation, a real estate investment trust is entitled to deduct distributions of taxable income such that it is not liable to pay income tax provided that its taxable income is fully distributed to unitholders. The REIT intends to continue to qualify as a real estate investment trust and to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

For periods in which the REIT does not qualify as a "real estate investment trust" and for the REIT's corporate subsidiaries, the REIT uses the asset and liability method of accounting for income taxes. Under this method, deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

2. Significant accounting policies (continued):

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Finance Trust qualifies as a mutual fund trust that is not a specified investment flow-through trust under the *Income Tax Act* (Canada). In accordance with the terms of Finance Trust's Declaration of Trust, all of the net income for tax purposes will be paid or payable to unitholders in the taxation year so that no income tax is payable by Finance Trust. For financial statement reporting purposes, the tax deductibility of Finance Trust's distributions is treated as an exemption from taxation as Finance Trust distributed and is committed to continue distributing all of its taxable income to its unitholders.

(i) *Unit option plan:*

The REIT has a unit option plan available for officers, employees and trustees as disclosed in note 13(a). The unit option plan is considered to be a cash-settled liability under IFRS 2 share-based payment and as a result is measured at each reporting period and at settlement date at its fair value. The fair value of the amount payable to participants in respect of the unit-option plan is recognized as an expense with a corresponding increase or decrease in liabilities, over the period that the employees unconditionally become entitled to payment. Any change in the fair value of the liability is recognized as a component of trust expense.

(j) *Cash and cash equivalents:*

Cash and cash equivalents include deposits in banks, certificates of deposit and short-term investments with original maturities of less than 90 days.

(k) *Restricted cash:*

Restricted cash includes amounts held in reserve by lenders to fund mortgage payments, repairs and capital expenditures or property tax payments.

(l) *Foreign currency translation:*

The REIT accounts for its investments in U.S. Holdco in the United States ("foreign operations") as a U.S. denominated foreign operation. Assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rates in effect at the balance sheet dates and revenue and expenses are translated at the average exchange rates for the periods.

The foreign currency translation adjustment is recorded as a separate component of accumulated other comprehensive income until there is a reduction in the REIT's net investment in the foreign operations. The U.S. dollar denominated bank indebtedness is designated as a hedge of the REIT's investment in self-sustaining operations. Accordingly, the accumulated unrealized gains or losses arising from the translation of this obligation are recorded as a foreign currency translation adjustment in accumulated other comprehensive income.

Finance Trust's U.S. dollar denominated assets and liabilities are translated into Canadian dollars at the exchange rates in effect at the balance sheet dates and revenue and expenses are translated at the actual exchange rates incurred, resulting in any gains/losses recorded in comprehensive income.

2. Significant accounting policies (continued):

(m) *Financial instruments:*

(i) Non-derivative financial assets

Accounts receivable and mortgages and amounts receivable are non-derivative financial assets classified as loans and receivables with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Trusts derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Trusts have a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Non-derivative financial liabilities

Non-derivative financial liabilities consist of mortgages payable, debentures payables, bank indebtedness, and accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

The Trusts derecognize a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Derivative financial liabilities

The REIT holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value at the end of each reporting period. Any resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument. None of the REIT's derivative instrument is recognized for hedge accounting under IFRS.

(iv) Financial liabilities measure at fair value through profit or loss

A financial liability is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. A financial liability may be designated as fair value through profit or loss upon initial recognition if it meets certain conditions, and IAS 39, *Financial Instruments - Recognition and Measurement*, permits the entire combined contract, asset or liability, to be designated as financial liabilities measure at fair value through profit or loss.

The convertible debentures and Class B LP units of H&R Portfolio Limited Partnership ("HRLP") are designated at fair value through profit or loss. Any gains or losses arising on remeasurement are recognized in profit or loss. Distributions paid to Class B LP unitholders are recognized as finance cost in profit or loss.

2. Significant accounting policies (continued):

(n) *Properties under development:*

The cost of properties under development includes direct development costs, realty taxes and borrowing costs that are directly attributable to the development. Borrowing costs associated with direct expenditures on properties under development are capitalized. Borrowing costs from the purchase cost of a site or property acquired for redevelopment are also capitalized. The amount of borrowing costs capitalized is determined first by reference to borrowing specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. The REIT considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally this occurs upon completion of construction and receipt of all necessary occupancy and other material permits. Where the REIT has pre-leased space as of or prior to the start of the development and the lease requires the REIT to construct tenant improvements which enhance the value of the property, practical completion is considered to occur on completion of such improvements.

(o) *Stapled Units*

Under IAS 32, *Financial Instruments: Presentation ("IAS 32")*, puttable instruments, such as the Stapled Units are generally classified as financial liabilities unless, the exemption criteria are met for equity classification. As a result of the REIT receiving consent of its unitholders to modify the REIT's Declaration of Trust to eliminate the mandatory distribution and leave distributions to the discretion of the trustees and the ability of the trustees to fund its distributions by way of issuing additional units prior to the amendment, the REIT met the exemption criteria under IAS 32 for equity classification. Finance Trust also met the exemption criteria under IAS 32 for equity classification. Nevertheless, the Stapled Units are not considered ordinary units under IAS 33, *Earnings Per Share*, and therefore an income (loss) per unit calculation is not presented.

(p) *Finance costs*

Finance costs are comprised of interest expense on borrowings, distributions on Class B LP units of HRLP classified as liabilities, gain or loss on change in fair value of convertible debentures and gain on extinguishment of debt.

Finance costs, associated with financial liabilities presented at amortized cost, are presented with the related debt instruments amortized using the effective interest rate over the anticipated life of the related debt.

(q) *New standards and interpretations not yet adopted*

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended March 31, 2011, and have not been applied in preparing these condensed interim combined financial statements. The Trusts are currently assessing the impact of these standards.

3. Explanation of transition to IFRS:

The Trusts have adopted IFRS effective January 1, 2010 (the "transition date") and has prepared their opening IFRS financial position as at that date. Prior to the adoption of IFRS, the Trusts prepared their condensed interim combined financial statements in accordance with Canadian GAAP. The Trusts' financial statements for the year ended December 31, 2011 will be the first annual financial statements that comply with IFRS.

The accounting policies set out in note 2 have been applied in preparing the condensed interim combined financial statements for the three months ended March 31, 2011, the comparative information presented in these condensed interim combined financial statements for the three months ended March 31, 2010 and the year ended December 31, 2010, and in the preparation of an opening IFRS condensed interim combined statement of financial position at January 1, 2010.

In preparing their opening IFRS statement of financial position, the Trusts have adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Trusts' financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables:

(i) Reconciliation of unitholders' equity as previously reported under Canadian GAAP to IFRS

(ii) Reconciliation of comprehensive income as previously reported under Canadian GAAP to IFRS

(iii) Impact on the statement of cash flows

(iv) Notes to the IFRS reconciliations

3. Explanation of transition to IFRS (continued):

(i) Reconciliation of unitholders' equity as previously reported under Canadian GAAP to IFRS on January 1, 2010 and December 31, 2010

	Note 3(iv)	December 31 2009 As reported under GAAP	Effect of transition to IFRS	January 1 2010 Restated under IFRS	December 31 2010 As reported under GAAP	Effect of transition to IFRS	December 31 2010 Restated under IFRS
Assets							
Real estate Assets							
Investment properties	a,d	$ 4,182,195	$ 439,224	$ 4,621,419	$ 4,078,185	$ 504,431	$ 4,582,616
Properties under development		794,534	-	794,534	1,268,331	-	1,268,331
Accrued rent receivable	e	125,212	22,312	147,524	136,605	20,333	156,938
		5,101,941	461,536	5,563,477	5,483,121	524,764	6,007,885
Mortgages and amount receivable		63,789	-	63,789	3,000	-	3,000
Assets classified as held for sale		19,035	-	19,035	-	-	-
Other assets	k	57,134	(5,527)	51,607	34,683	-	34,683
Cash and cash equivalents		109,224	-	109,224	10,730	-	10,730
		$ 5,351,123	$ 456,009	$ 5,807,132	$ 5,531,534	$ 524,764	$ 6,056,298
Liabilities and Unitholders' Equity							
Liabilities							
Mortgages payable		$ 2,818,476	$ -	$ 2,818,476	$ 2,706,707	$ -	$ 2,706,707
Debentures payable	f	565,758	88,897	654,655	822,340	143,488	965,828
Below-market leases	a	57,237	2,365	59,602	55,668	1,990	57,658
Non-controlling interest	h	75,122	8,888	84,010	77,261	28,391	105,652
Bank indebtedness		13,556	-	13,556	89,045	-	89,045
Unit options payable	g	-	2,923	2,923	-	3,409	3,409
Derivative Instruments		-	-	-	3,317	-	3,317
Accounts payable and accrued liabilities	i	166,971	2,215	169,186	170,544	-	170,544
Deferred tax liability	l	138,122	331,720	469,842	-	-	-
Liabilities classified as held for sale	i	2,215	(2,215)	-	-	-	-
		3,837,457	434,793	4,272,250	3,924,882	177,278	4,102,160
Unitholders' equity		1,513,666	21,216	1,534,882	1,606,652	347,486	1,954,138
		$ 5,351,123	$ 456,009	$ 5,807,132	$ 5,531,534	$ 524,764	$ 6,056,298

3. Explanation of transition to IFRS (continued):

(i) Reconciliation of untholders' equity as previously reported under Canadian GAAP to IFRS on January 1, 2010

	Note 3(iv)	Value of Units	Accumulated Net Income	Accumulated Distributions	Contributed Surplus	Equity Component of Warrants and Debentures	Accumulated Other Comprehensive Loss	Total
Unitholders' equity, **December 31, 2009** as reported under Canadian GAAP		$ 2,182,289	$ 682,994	$ (1,371,328)	$ -	$ 50,093	$ (30,382)	$ 1,513,666
Foreign currency translation adjustment	b	-	(27,540)	-	-	-	27,540	-
Fair value as deemed cost	a	-	563,145	-	-	-	-	563,145
Impairment of properties at January 1, 2009	d	-	(126,286)	-	-	-	-	(126,286)
Fair value of debentures payable	f	-	(38,804)	-	-	(50,093)	-	(88,897)
Accrued rent receivable	e	-	22,312	-	-	-	-	22,312
Non-controlling interest	h	-	(8,888)	-	-	-	-	(8,888)
Unit-based compensation	g	-	(2,923)	-	-	-	-	(2,923)
Deferred tax	I	-	(336,835)	-	-	-	(412)	(337,247)
Sub- total opening IFRS adjustments		-	44,181	-	-	(50,093)	27,128	21,216
Unitholders' equity, **January 1, 2010,** as reported under IFRS		$ 2,182,289	$ 727,175	$ (1,371,328)	$ -	$ -	$ (3,254)	$ 1,534,882

3. Explanation of transition to IFRS (continued):

(i) Reconciliation of unitholders' equity as previously reported under Canadian GAAP to IFRS at March 31, 2010

	Note 3(iv)	Value of Units	Accumulated Net Income	Accumulated Distributions	Contributed Surplus	Equity Component of Warrants and Debentures	Accumulated Other Comprehensive Loss	Total
Unitholders' equity, **March 31, 2010** as reported under Canadian GAAP		$ 2,184,396	$ 665,734	$ (1,397,225)	$ 297	$ 50,092	$ (33,221)	$ 1,470,073
Opening IFRS adjustments, January 1, 2010		-	44,181	-	-	(50,093)	27,128	21,216
Fair value as deemed cost	a	-	(8,895)	-	-	-	-	(8,895)
Reversal of impairment of properties taken on January 1, 2009	d	-	1,164	-	-	-	-	1,164
Depreciation on impaired properties	d	-	683	-	-	-	-	683
Fair value of debentures payable	f	2	(21,148)	-	-	1	-	(21,145)
Accrued rent receivable	e	-	175	-	-	-	-	175
Non-controlling interest	h	-	(8,124)	-	-	-	-	(8,124)
Unit-based compensation	g	-	(1,075)	-	(297)	-	-	(1,372)
Net loss on foreign exchange	j	-	(32)	-	-	-	32	-
Deferred tax	l	-	(2,580)	-	-	-	(1)	(2,581)
Sub- total of IFRS adjustments		2	4,349	-	(297)	(50,092)	27,159	(18,879)
Unitholders' equity, **March 31, 2010,** as reported under IFRS		$ 2,184,398	$ 670,083	$ (1,397,225)	$ -	$ -	$ (6,062)	$ 1,451,194

3. Explanation of transition to IFRS (continued):

(i) Reconciliation of unitholders' equity as previously reported under Canadian GAAP to IFRS at December 31, 2010

	Note 3(iv)	Value of Units	Accumulated Net Income	Accumulated Distributions	Contributed Surplus	Equity Component of Warrants and Debentures	Accumulated Other Comprehensive Loss	Total
Unitholders' equity, **December 31, 2010** as reported under Canadian GAAP		$ 2,216,361	$ 855,342	$ (1,485,024)	$ 1,225	$ 55,757	$ (37,009)	$ 1,606,652
Opening IFRS adjustments, January 1, 2010		-	44,181	-	-	(50,093)	27,128	21,216
Fair value as deemed cost	a	-	(36,158)	-	-	-	-	(36,158)
Reversal of impairment of properties taken on January 1, 2009	d	-	101,165	-	-	-	-	101,165
Depreciation on impaired properties	d	-	575	-	-	-	-	575
Fair value of debentures payable	f	2,046	(50,973)	-	-	(5,664)	-	(54,591)
Accrued rent receivable	e	-	(1,979)	-	-	-	-	(1,979)
Non-controlling interest	h	-	(19,503)	-	-	-	-	(19,503)
Unit-based compensation	g	6,396	(5,657)	-	(1,225)	-	-	(486)
Net loss on foreign exchange	j	-	(53)	-	-	-	53	-
Deferred tax	l	-	336,835	-	-	-	412	337,247
Sub- total of IFRS adjustments		8,442	368,433	-	(1,225)	(55,757)	27,593	347,486
Unitholders' equity, **December 31, 2010,** as reported under IFRS		$ 2,224,803	$ 1,223,775	$ (1,485,024)	$ -	$ -	$ (9,416)	$ 1,954,138

3. **Explanation of transition to IFRS (continued):**

(ii) Reconciliation of comprehensive income as previously reported under Canadian GAAP to IFRS for the three months ended March 31, 2010 and for the year ended December 31, 2010

		Three months ended March 31, 2010			Year ended December 31, 2010		
	Note 3(iv)	**As reported under GAAP**	Effect of transition to IFRS	**Restated under IFRS**	**As reported under GAAP**	Effect of transition to IFRS	**Restated under IFRS**
Property operating income:							
Rentals from investment properties	a,e,i,k	$ 151,223	$ 1,357	$ 152,580	$ 615,572	$ 1,855	$ 617,427
Property operating costs	i	(49,668)	(296)	(49,964)	(204,084)	(302)	(204,386)
		101,555	1,061	102,616	411,488	1,553	413,041
Finance cost:							
Finance income		1,274	-	1,274	2,589	-	2,589
Finance cost - operations	f,h	(46,666)	1,123	(45,543)	(179,519)	5,399	(174,120)
Loss on extinguishment of debt		(38,834)	-	(38,834)	(21,538)	-	(21,538)
Loss on change in fair values	f,h	69	(29,667)	(29,598)	(5,521)	(77,761)	(83,282)
		(84,157)	(28,544)	(112,701)	(203,989)	(72,362)	(276,351)
Amortization and impairment	a,d,i,k	(31,198)	(8,038)	(39,236)	(139,996)	62,567	(77,429)
Trust expenses	g	(2,559)	(1,075)	(3,634)	(8,897)	(5,657)	(14,554)
Gain on sale of investment properties	i	-	3,633	3,633	-	3,576	3,576
Transaction costs on issuance of convertible debentures	f	-	-	-	-	(4,535)	(4,535)
Net loss on foreign exchange	j	(3,528)	(32)	(3,560)	(6,775)	(53)	(6,828)
		(37,285)	(5,512)	(42,797)	(155,668)	55,898	(99,770)
Net income (loss) before income taxes, non-controlling interest and discontinued operations		(19,887)	(32,995)	(52,882)	51,831	(14,911)	36,920
Income tax recovery (expense)	l	(1,630)	(2,580)	(4,210)	122,845	336,835	459,680
Net income (loss) before non-controlling interest and discontinued operations		(21,517)	(35,575)	(57,092)	174,676	321,924	496,600
Non-controlling interest	h	857	(857)	-	(6,272)	6,272	-
Net income (loss) from continuing operations		(20,660)	(36,432)	(57,092)	168,404	328,196	496,600
Net income from discontinued operations	i	3,400	(3,400)	-	3,944	(3,944)	-
Net income (loss)		(17,260)	(39,832)	(57,092)	172,348	324,252	496,600
Other comprehensive loss:							
Unrealized loss on translation of self-sustaining foreign operations		(2,932)	32	(2,900)	(7,502)	53	(7,449)
Transfer of realized loss on cash flow hedges to net income		92	-	92	372	-	372
Future income taxes		1	(1)	-	503	412	915
		(2,839)	31	(2,808)	(6,627)	465	(6,162)
Total comprehensive income (loss)		$ (20,099)	$ (39,801)	$ (59,900)	$ 165,721	$ 324,717	$ 490,438

3. Explanation of transition to IFRS (continued):

(iii) Impact on the statement of cash flows

The IFRS adjustments made to the comparative combined statement of comprehensive income (loss) for the three months ended March 31, 2010 (as described above) have been made to the combined statement of cash flows as at the same date. There were no other significant IFRS transition differences noted.

(iv) Notes to the IFRSs reconciliations

In preparing these condensed interim combined financial statements in accordance with IFRS 1, the REIT has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions are described below in (a), (b) and (c).

(a) Investment properties - fair value as deemed cost

The REIT has elected to apply the fair value as deemed cost for certain properties as at January 1, 2010 and the cost model for subsequent accounting for its investment properties. The carrying values of these selected properties were adjusted to their fair market value at the transition date. Any adjustment to the carrying value at the transition date is reflected as an adjustment in investment properties and an offsetting adjustment to retained earnings.

The resulting adjustment to the condensed interim combined statement of financial position was:

	December 31 2010	January 1 2010
Investment properties:		
A decrease to land	$ (7,595)	$ (7,595)
An increase to building and improvements	144,158	147,853
An increase to intangible assets	426,574	464,230
A decrease to leasing expense	(11,699)	(14,222)
A decrease to tenant inducements	(22,461)	(24,756)
	528,977	565,510
Liability:		
An increase to below-market rent	1,990	2,365
	$ 526,987	$ 563,145

The resulting increased amortization expense of $9,617 for the three months ended March 31, 2010 and $38,453 for the year ended December 31, 2010 was included in amortization and impairment expenses. The resulting decreased rent amortization of tenant inducements by $722 for the three months ended March 31, 2010 and $2,295 for the year ended December 31, 2010 was included in amortization and impairment expense.

(b) Foreign currency translation election

In accordance with IFRS 1, the REIT has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations to be nil at January 1, 2010, with the balance reclassified to retained earnings. The only effect of this is a restatement within the accounts of the unitholders' equity.

3. Explanation of transition to IFRS (continued):

(c) Business combination election

In accordance with IFRS 1, the REIT has elected to apply the business combination accounting standard prospectively to all business combinations subsequent to the January 1, 2010 transition date.

(d) Impairment of investment properties

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists, and then measuring impairment by comparing asset carrying values to their fair value (which is calculated using discounted cash flows). IAS 36, *Impairment of Assets* uses a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted cash flows). This resulted in write-downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. Unlike Canadian GAAP, which does not permit reversals, IFRS allows the reversal of an impairment loss in prior periods for an asset if there has been a change in the estimates used to determine the assets recoverable amounts since the last impairment loss was recognized.

This adjustment decreased investment properties in the statement of financial position by $126,286 at January 1, 2010 and $24,546 at December 31, 2010, which included a reversal of an impairment loss recognized in the three months ended March 31, 2010 of $1,164 and $101,165 for the year ended December 31, 2010, which was included in amortization and impairment expense. The resulting decreased amortization expense of $683 for the three months ended March 31, 2010 and $575 for the year ended December 31, 2010 was included in amortization and impairment expenses.

(e) Accrued rent receivable

Under IFRS and Canadian GAAP, rental revenue is recognized on a straight-line basis over the term of the lease, resulting in accruals for rents that are not billable or due until future years. Under IFRS, the accrued rent receivable amount resulting from straight-lining rent is determined from the inception of each lease or the date the REIT assumed the lease. Under Canadian GAAP only leases in place from January 1, 2004 were straight-lined.

This adjustment increased accrued rent receivable in the statement of financial position by $22,312 at January 1, 2010 and $20,333 at December 31, 2010. This adjustment also increased (decreased) rent smoothing by $175 and ($1,979) for the three months ended March 31, 2010 and the year ended December 31, 2010, respectively.

(f) Convertible debentures

Under IFRS, the REIT has elected to measure the outstanding convertible debentures at fair value. At each period end, the fair value of these convertible debentures is measured based on the quoted price of each series of convertible debentures as listed on the TSX. The fluctuation in the fair value between each period, is charged to gain (loss) in changes in fair values in comprehensive income. Under Canadian GAAP, convertible debentures were recorded as a liability, net of issue costs, and equity, which represents the holders' option to convert the convertible debentures into Stapled Units. Interest expense was recorded as a charge to income using an effective rate representing the coupon rate and the effective rate being credited to the debt component of the convertible debentures such that, at maturity, the debt component was equal to the face value of the then outstanding convertible debentures.

3. Explanation of transition to IFRS (continued):

This adjustment increased the convertible debentures liability in the statement of financial position by $88,897 at January 1, 2010 and $143,488 at December 31, 2010. The effective interest rate accretion of $2,102 for the three months ended March 31, 2010 and $9,681 for the year ended December 31, 2010 was eliminated. This adjustment also increased the loss on fair value of convertible debentures by $23,250 and $56,119 for the three months ended March 31, 2010 and year ended December 31, 2010, respectively, and resulted in the expensing of transaction costs on issuance of the 2020 convertible debentures by $4,535 for the year ended December 31, 2010.

(g) Unit-based compensation

Under IFRS, the REIT is required to measure its cash-settled unit-based option plan at fair value and record a liability. The fluctuation in the fair value between each period is charged to trust expenses in comprehensive income. Under Canadian GAAP, the REIT expensed and charged to equity, the cost of unit-based compensation over the weighted average vesting period.

This adjustment increased the net liability to unit options payable in the statement of financial position by $2,923 at January 1, 2010 and $3,409 at December 31, 2010. This adjustment also increased trust expenses by $1,075 and $5,657 for the three months ended March 31, 2010 and the year ended December 31, 2010, respectively.

(h) Class B LP units (non-controlling interest)

Under IAS 32, the Class B LP units of HRLP are considered puttable instruments and are classified as financial liabilities in the condensed interim combined financial statements. At each period end, the fair value of these units is measured based on the quoted price of Stapled Units on the TSX. The fluctuation in the fair value is charged to comprehensive income and distributions on the Class B LP units of HRLP are reflected as a component of finance costs in earnings. Under Canadian GAAP, non-controlling interest was presented as a separate item between liabilities and unitholders' equity in the statement of financial position, and the non-controlling interests' share of income and other comprehensive income were deducted in calculating net income and comprehensive income of the REIT.

Non-controlling interest of $75,122 at January 1, 2010 (December 31, 2010 - $77,261) as determined under Canadian GAAP, has been reclassified as a liability. The fair value adjustment increased the non-controlling interest liability in the statement of financial position by $8,888 at January 1, 2010 and $28,391 at December 31, 2010. The total effect of reclassifying the non-controlling interest was $8,124 for the three months ended March 31, 2010 and $19,503 for the year ended December 31, 2010 as follows:

	March 31 2010	December 31 2010
Finance cost	$ 979	$ 4,282
Loss on change in fair value	6,417	21,642
Non-controlling interests' share of earnings		
Continuing operations	857	(6,272)
Discontinued operations	(129)	(149)
	$ 8,124	$ 19,503

3. Explanation of transition to IFRS (continued):

(i) Discontinued operations

The definition of discontinued operations under IFRS is more restrictive than under Canadian GAAP. Only disposals of significant operations, such as a major line of business or geographical area of operation, meet the IFRS requirements to present the results as discontinued operations. Discontinued operations in the financial statements as presented pursuant to GAAP have been reclassified to continuing operations on the IFRS financial statements, as they do not meet the IFRS definition of discontinued operations. This does not affect unitholders' equity under IFRS. Liabilities classified as held for sale of $2,215 was reclassified to accounts payable and accrued liabilities as at January 1, 2010.

The effect of reclassifying the discontinuing operations on the statement of comprehensive income for the three months ended March 31, 2010 and for the year ended December 31, 2010 is as follows:

	March 31 2010	December 31 2010
Rentals from investment properties	$ 233	$ 860
Property operating costs	(296)	(302)
Amortization and impairment expense	(41)	(41)
Gain on sale of investment properties	3,633	3,576
Non-controlling interest from discontinued operations	(129)	(149)
Net income from discontinued operations	(3,400)	(3,944)
	$ -	$ -

(j) Net loss on foreign exchange

The foreign exchange gain or loss recorded in net income as a result of exchanging Finance Trust's U.S. dollar note receivable from U.S. Holdco is not eliminated on combination as U.S. Holdco is a U.S. denominated foreign operation of the REIT, which results in the foreign exchange on the note payable being reported in accumulated other comprehensive income. This adjustment increased the net loss on foreign exchange by $32 and $53 for the three months ended March 31, 2010 and the year ended December 31, 2010, respectively.

(k) Rent amortization of above- and below- market rents

Under Canadian GAAP, the purchase price of an acquired property was recorded in several components, including an intangible asset/liability for above- and below-market leases. These assets/liabilities were amortized against revenue over the life of the underlying leases. Under IFRS, these assets/liabilities are amortized in amortization and impairment expense. This adjustment increased amortization and impairment expense and increased rental from investment properties by $227 and $679 for the three months ended March 31, 2010 and the year ended December 31, 2010, respectively.

3. Explanation of transition to IFRS (continued):

(l) Deferred tax

Under both IFRS and Canadian GAAP, deferred income taxes are recorded for the temporary differences arising in respect of assets and liabilities for the periods when the REIT did not meet the REIT Conditions. This is determined at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Under Canadian GAAP, future distributions are factored into the tax rate applied. Under IFRS, the tax rate applied to determine the deferred income liability on January 1, 2010 and March 31, 2010 was 46.41%, the applicable tax rate excluding future distributions. The deferred income tax liability was reversed during the quarter ended June 30, 2010 when the REIT met the REIT Conditions.

This adjustment decreased the deferred tax asset by $5,527 and increased the deferred tax liability by $331,720 in the statement of financial position at January 1, 2010 and increased accumulated other comprehensive loss by $412 as at January 1, 2010 with an offsetting adjustment to retained earnings of $336,835. This adjustment also increased (decreased) the income tax expense by $2,580 and ($380,146) for the three months ended March 31, 2010 and for the year ended December 31, 2010, respectively.

(m) Mandatory exception to retrospective application

First-time adopters of IFRS must apply the provisions of IFRS 1. IFRS 1 requires adopters to retrospectively apply all IFRS standards as of the reporting date with certain optional exemptions and certain mandatory exemptions. In preparing these condensed interim combined financial statements in accordance with IFRS 1, the REIT has applied the mandatory exemption from full retrospective application of IFRS for estimates. The mandatory exemption requires that estimates previously determined under Canadian GAAP cannot be revised due to the application of IFRS, except when necessary to reflect differences in accounting policies.

4. Investment properties:

	March 31 2011	December 31 2010
Opening balance, beginning of year	**$ 4,582,616**	$ 4,621,419
Acquisitions	**33,971**	166,660
Expenditures capitalized to building improvements	**1,318**	15,371
Additions to leasing expenses and tenant inducements	**4,624**	5,517
Amortization and impairment expense	**(41,060)**	(164,670)
Impairment reversal (loss)	**(3,494)**	86,303
Investment properties legal title transferred to lenders	**(28,047)**	(82,378)
Change in foreign exchange	**(23,300)**	(65,606)
Closing balance, end of period	**$ 4,526,628**	$ 4,582,616

4. **Investment properties (continued):**

March 31, 2011	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 867,068	$ -	$ 867,068
Buildings and improvements	3,236,125	(376,539)	2,859,586
Paving and equipment	118,372	(61,111)	57,261
Intangible assets	891,149	(176,402)	714,747
Tenant inducements	15,143	(4,646)	10,497
Leasing expenses	27,244	(9,775)	17,469
	$ 5,155,101	$ (628,473)	$ 4,526,628

December 31, 2010	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 866,393	$ -	$ 866,393
Buildings and improvements	3,257,289	(360,254)	2,897,035
Paving and equipment	120,126	(59,606)	60,520
Intangible assets	895,084	(161,586)	733,498
Tenant inducements	15,311	(4,563)	10,748
Leasing expenses	25,551	(11,129)	14,422
	$ 5,179,754	$ (597,138)	$ 4,582,616

January 1, 2010	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 842,618	$ -	$ 842,618
Buildings and improvements	3,194,485	(289,909)	2,904,576
Paving and equipment	128,817	(56,153)	72,664
Intangible assets	885,805	(102,605)	783,200
Tenant inducements	8,521	(3,480)	5,041
Leasing expenses	22,112	(8,792)	13,320
	$ 5,082,358	$ (460,939)	$ 4,621,419

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

4. **Investment properties (continued):**

During the three months ended March 31, 2011 the lenders to four U.S. investment properties previously occupied by Bruno's Supermarkets LLC and Boscov's Department Store accepted title to such U.S. investment properties, thereby releasing the REIT from any further obligation with respect to the mortgages on such properties. The REIT recorded a gain on the extinguishment of this debt of $14,785 for the three months ended March 31, 2011. There were no similar events during the three months ended March 31, 2010.

Acquisitions:

During the three months ended March 31, 2011, the REIT acquired two investment properties (December 31, 2010 - 16 investment properties). These acquisitions have been recorded by the acquisition method with the results of operations included in these condensed interim combined financial statements from the date of acquisition.

The following table summarizes the acquired net assets on their respective dates of acquisition:

	March 31 2011	December 31 2010
Assets		
Land	$ 9,106	$ 35,308
Building	19,463	100,801
Paving and equipment	963	4,173
Intangible in-place lease costs	3,837	16,253
Above-market leases	-	8,485
Customer relationship value	602	1,640
	33,971	166,660
Liabilities		
Mortgages payable, net of mark to market adjustments	6,642	82,495
Intangible below-market leases	1,058	3,743
Net assets acquired and settled by cash	$ 26,271	$ 80,422

During the three months ended March 31, 2011, the REIT incurred additional cost of $329 in respect to 2010 acquisitions.

Investment properties are measured at cost less accumulated depreciation and impairment losses. In accordance with IFRS, the REIT is required to disclose the fair value of the investment properties.

The estimated fair values of the REIT's investment properties are as follows:

	Canada Fair Value	United States Fair Value	Total Fair Value	Net Book Value*
March 31, 2011	**$ 4,409,136**	**$ 1,144,823**	**$ 5,553,959**	**$ 4,626,878**
December 31, 2010	4,334,526	1,167,478	5,502,004	4,681,896
January 1, 2010	4,047,379	1,070,286	5,117,665	4,727,766

* Net book value includes investment properties, accrued rent receivable, assets held for sale and below-market leases.

4. Investment properties (continued):

The following methods and key assumptions for the disclosure above:

(i) Consideration of recent sales of similar properties within similar market areas;

(ii) The discounted cash flow analysis which is based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at each reporting period, less future cash outflows in respect of such leases discounted generally over a term of ten years;

(iii) The direct capitalization method which is based on the conversion of current earnings directly into an expression of market value. The normalized net income for the year is divided by an overall capitalization rate;

(iv) External independent appraisals were completed for 96.7% of properties as at January 1, 2010. For the December 31, 2010 appraisals, 19.6% of the portfolio was valued by professional external appraisers, and as at March 31, 2011 the professional external appraisers valued 19.6% of the portfolio. The remainder of the portfolio is valued by the REIT's internal valuation team.

The REIT obtained valuations of selected properties prepared by qualified valuation professionals and considered the results when arriving at its own conclusions on values. The final investment property valuation has been reduced by $157,568 (December 31, 2010 - $156,938, January 1, 2010 - $147,524) related to accrued rent receivable, which is disclosed as a separate line item on the statement of financial position.

The REIT utilizes capitalization and discount rates within the ranges provided by external industry sources. To the extent that the externally provided capitalization rate ranges change from one reporting period to the next, the fair value of the investment properties would increase or decrease accordingly.

The REIT has utilized the following weighted average capitalization rates in the fair value of the investment properties:

	Overall Capitalization Rate				Discount Rate			Terminal Capitalization Rate		
	Range	Canada	United States	Total	Canada	United States	Total	Canada	United States	Total
March 31, 2011	**6.25%-10.00%**	**6.94%**	**7.78%**	**7.11%**	**7.82%**	**8.37%**	**7.93%**	**7.28%**	**8.15%**	**7.45%**
December 31, 2010	6.25% -10.00%	6.98%	7.89%	7.17%	7.85%	8.45%	7.97%	7.36%	8.22%	7.54%
January 1, 2010	6.50% -11.00%	7.49%	8.60%	7.70%	8.52%	8.89%	8.59%	7.82%	8.97%	8.05%

5. Properties under development:

Project	Address	March 31 2011	December 31 2010	January 1 2010
The Bow (note 23(a))	5th Ave. at Centre Street, Calgary, AB	**$ 1,245,708**	$ 1,150,094	$ 719,173
Heart Lake	Mayfield West Business Park, Caledon, ON	**80,082**	80,195	39,809
Airport Road	7900 Airport Road, Brampton, ON	**49,519**	38,042	35,552
		$ 1,375,309	$ 1,268,331	$ 794,534

5. **Properties under development (continued):**

	March 31 2011	December 31 2010
Balance, beginning of year	**$ 1,268,331**	$ 794,534
Acquisitions	**11,000**	-
Development including capitalized interest (note 16)	**95,978**	473,797
Balance, end of period	**$ 1,375,309**	$ 1,268,331

6. **Assets classified as held for sale**

There are currently no properties held for sale as at March 31, 2011 (December 31, 2010 - nil, January 1, 2010 - one industrial and one office property).

The following table sets forth the balance sheets associated with investment properties classified as discontinued operations:

	March 31 2011	December 31 2010	January 1 2010
Assets			
Investment properties (net of accumulated depreciation of $4,378)	**$ -**	$ -	$ 18,425
Accrued rent receivable	**-**	-	188
Other assets	**-**	-	141
Cash and cash equivalents	**-**	-	281
	$ -	$ -	$ 19,035

7. **Other assets:**

	March 31 2011	December 31 2010	January 1 2010
Restricted cash	**$ 11,482**	$ 19,106	$ 20,001
Accounts receivable	**9,146**	7,420	6,543
Prepaid expenses and sundry assets	**10,102**	6,932	12,811
Derivative instruments*	**1,690**	1,225	3,463
Deferred income tax asset (note 22)	**-**	-	8,789
	$ 32,420	$ 34,683	$ 51,607

* The REIT entered into a foreign exchange forward contract with a Canadian chartered bank effectively locking the REIT's rate to exchange U.S. $2,000 per month at 1.0402 for a two-year period expiring in April 2012. The fair value of this foreign exchange forward contract as at March 31, 2011 is $1,690 (December 31, 2010 - $1,225). The change in fair value of $465 (March 31, 2010 - $nil) and the related $35 foreign exchange gain for the three months ended March 31, 2011 (March 31, 2010 - $nil), have been recorded as total unrealized gain of $500 (March 31, 2010 - $nil).

8. Cash and cash equivalents:

Cash and cash equivalents at March 31, 2011 includes cash on hand of $12,263 (December 31, 2010 - $6,785) and bank term deposits of $29,018 (December 31, 2010 - $3,945) at rates of interest varying between 0.90% to 1.30% (2010 - 0.93% to 1.00%).

9. Mortgages payable:

The mortgages payable are secured by investment properties and letters of credit in certain cases, bearing fixed interest with a contractual weighted average rate of 6.2% (December 31, 2010 - 6.2%) (January 1, 2010 - 6.2%), per annum and maturing between 2011 and 2035. Included in mortgages payable at March 31, 2011 are U.S. dollar denominated mortgages of U.S. $785,624 (December 31, 2010 - U.S. $824,066). The Canadian equivalents of these amounts are $762,055 (December 31, 2010 - $815,826).

The REIT entered into an interest rate swap on one mortgage. The fair value of this interest rate swap as at March 31, 2011 is a liability of $310 (December 31, 2010 - liability of $420). The change in fair value of $110 (March 31, 2010 - $nil) and the related $7 foreign exchange gain for the three months ended March 31, 2011 (March 31, 2010 - $nil) have been recorded as a total unrealized gain of $103 (March 31, 2010 - $nil).

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:

	March 31 2011
Years ending December 31:	
2011*	$ 140,808
2012	361,977
2013	203,007
2014	278,639
2015	318,826
Thereafter	1,291,771
	2,595,028
Mortgages payable due on demand **	38,946
Financing costs and mark-to-market adjustment arising on acquisitions	(3,762)
	$ 2,630,212

* For the balance of the year

** Relates to three non-recourse mortgages to the REIT for investment properties in which the tenants, Boscov's Department Store and Great Atlantic and Pacific Tea Company ("A&P"), have filed for protection under Chapter 11 of the United States Bankruptcy Code. The REIT has handed over control of one of these investment 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.

10. Debentures payable:

The full terms of the debentures are contained in the public offering documents and the following table summarizes key terms:

						March 31 2011	December 31 2010	January 1 2010
	Maturity	**Contractual interest rate**	**Effective interest rate**	**Conversion price**	**Face value**	**Carrying value**	Carrying value	Carrying value
Convertible Debentures (a)								
2013 Convertible Debentures	June 30, 2013	6.65%	6.65%	$ 23.11	$115,000	**$121,153**	$121,325	$117,875
2014 Convertible Debentures	December 31, 2014	6.75%	6.75%	14.00	136,436	**213,522**	203,038	173,100
2017 Convertible Debentures	June 30, 2017	6.00%	6.00%	19.00	170,636	**201,351**	188,125	174,913
2020 Convertible Debentures	June 30, 2020	5.90%	5.90%	23.50	100,000	**105,250**	102,500	-
					522,072	**641,276**	614,988	465,888
Senior Debentures (b)								
Series A Senior Debentures	February 3, 2015	5.20%	5.40%	-	115,000	**114,180**	114,154	-
Series B Senior Debentures	February 3, 2017	5.90%	6.06%	-	115,000	**114,082**	114,073	-
Series C Senior Debentures	December 1, 2018	5.00%	5.30%	-	125,000	**122,651**	122,613	-
Series D Senior Debentures	June 27, 2016	4.78%	4.96%	-	180,000	**178,498**	-	-
					535,000	**529,411**	350,840	-
Non-Convertible Debentures (c)	-	11.50%	12.90%	-	-	**-**	-	188,767
					$1,057,072	**$1,170,687**	$965,828	$654,655

Carrying value of the Convertible Debentures is determined using the quoted market price on March 31, 2011 (December 31, 2010 and January 1, 2010).

(a) *Convertible Debentures:*

The 2013, 2014, 2017 and 2020 convertible debentures (collectively the "Convertible Debentures") pay interest semi-annually on June 30 and December 31. Each Convertible Debenture is convertible into freely tradeable Stapled Units at the holder's option at (i) any time prior to the maturity date and (ii) the business day immediately preceding the date specified by the REIT for redemption of the Convertible Debentures, at a conversion price indicated in the table above.

(b) *Senior Debentures*

The Series A, B, C and D senior debentures (collectively the "Senior Debentures") pay interest semi-annually. The Series A and B senior debentures pay interest on February 3 and August 3, the Series C senior debentures pay interest on June 1 and December 1 and this Series D senior debentures pay interest on January 27 and July 27.

The Senior Debentures are rated BBB (with a Stable trend) by DBRS Limited.

10. Debentures payable (continued):

(c) *Non-Convertible Debentures:*

In April 2009, the REIT issued $200,000 of unsecured debentures (the "Non-Convertible Debentures"). In February 2010, the REIT repaid the outstanding Non-Convertible Debentures 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 consolidated statement of income 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.

	March 31 2011	December 31 2010
Convertible Debentures		
Fair value, beginning of year	**$ 614,988**	$ 465,888
Issued - 2020 Convertible Debentures	**-**	100,000
Conversion - 2014 Convertible Debentures	**(12,769)**	(7,019)
Conversion - 2017 Convertible Debentures	**(4,936)**	-
Loss on fair value	**43,993**	56,119
Fair value, end of period	**641,276**	614,988
Senior Debentures		
Carrying value, beginning of year	**350,840**	-
Issued - Series A, B and C Senior Debentures	**-**	350,459
Issued - Series D Senior Debentures	**178,475**	-
Accretion adjustment	**96**	381
Carrying value, end of period	**529,411**	350,840
Non-Convertible Debentures		
Carrying value, beginning of year	**-**	188,767
Accretion adjustment	**-**	151
Redemption	**-**	(188,918)
Carrying value, end of period	**-**	-
	$ 1,170,687	$ 965,828

11. Non-controlling interest:

Non-controlling interest represents the amount of equity related to the Class B LP 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 condensed interim combined financial statements. The Class B LP units are presented as a liability under IFRS and are measured at fair value through profit or loss. Fair value is determined by using quoted market prices for the listed Stapled Units since all of the 5,437,565 Class B LP units of HRLP and are only exchangeable on a one-for-one basis, at the option of the holder, into Stapled Units. Market price as at March 31, 2011 is $22.00 (December 31, 2010 - $19.43).

Holders of the Class B LP 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. Under IFRS, these distributions are included in finance costs in the statement of comprehensive income (loss).

As a result of a reorganization in 2009, 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.

12. Bank indebtedness:

The REIT has the following facilities:

(a) A general operating facility which is secured by fixed charges over certain investment properties due on December 31, 2012. The total facility as at March 31, 2011 is $295,300 (December 31, 2010 - $295,300) 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, 2011, after taking into account the bank indebtedness drawn of $4,622 (December 31, 2010 - $62,603) and the outstanding letters of credit and other items, is $246,192 (December 31, 2010 - $188,148). The Canadian dollar bank indebtedness bears interest at rates approximating the prime rate of a Canadian chartered bank. At March 31, 2011, the Canadian prime interest rate was 3.00% (December 31, 2010 - 3.00%) 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, 2011 are U.S. dollar denominated amounts of $269 (December 31, 2010 - U.S. $101). The Canadian equivalents of these amounts are $261 (December 31, 2010 - $100). 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 Bow Facility consists of a non-revolving term construction credit facility in the amount of $425,000 available by way of prime loans and/or bankers' acceptances. As at March 31, 2011, the REIT has drawn $59,046 (December 31, 2010 - $26,442) under the Bow Facility and the amount available at March 31, 2011 is $365,954 (December 31, 2010 - $398,558). The initial maturity date of the Bow Facility is October 22, 2012.

The REIT entered into an interest rate swap that is intended to limit its interest rate exposure during the term of the Bow Facility. As at March 31, 2011, the expected annual effective interest rate for the Bow Facility, including the cost of the swap, is 4.65% (March 31, 2010 - 6.90%). The fair value of this interest rate swap as at March 31, 2011 is a liability of $2,452 (December 31, 2010 - liability of $2,897) resulting in an unrealized gain of $445 for the three months ended March 31, 2011 (March 31, 2010 - unrealized gain of $69).

13. Unitholders' equity:

The following number of Stapled Units are issued and outstanding:

As at December 31, 2009	143,825,262
Issued under the Distribution Reinvestment Plan and Unit Purchase Plan (the "DRIP")	133,585
2014 Convertible Debentures converted into units (note 10(a))	714
As at March 31, 2010	143,959,561
Issued under the DRIP	680,489
2014 Convertible Debentures converted into units (note 10(a))	354,491
Options exercised	1,126,101
As at December 31, 2010	**146,120,642**
Issued under the DRIP	**331,569**
2014 Convertible Debentures converted into units (note 10(a))	**613,637**
2017 Convertible Debentures converted into units (note 10(a))	**229,683**
Options exercised	**16,667**
As at March 31, 2011	**147,312,198**

The weighted average number of basic Stapled Units for the three months ended March 31, 2011 is 146,433,321 (March 31, 2010 - 143,871,245).

(a) *Unit option plan:*

As at March 31, 2011, a maximum of 8,800,000 (December 31, 2010 - 8,800,000) Stapled Units were authorized to be issued to the REIT's officers, employees and certain trustees, of which 8,150,000 options (December 31, 2010 - 7,600,000 options) have been granted. The exercise price of each option approximated the market price of the Stapled Units on the date of grant and shall be increased by the amount, if any, by which, (i) the fair market value of one Finance Trust unit at the time of exercise of such option, exceeds (ii) the fair market value of one Finance Trust unit at the time of grant of such option. The options vest at 33.3% per year from the grant date, will be fully vested after three years, and expire ten years after the date of the grant.

During the three months ended March 31, 2011, 550,000 (December 31, 2010 - 600,000) options were granted.

As described in note 2(g), under IFRS the unit option plan is considered a cash-settled plan with the value of the units recorded as a liability on the condensed interim combined statement of financial position. The liability is released to equity when the unit options are converted to REIT units. The liability is revalued each reporting date based on the trading value of the Stapled Units. The fair value of the employee unit options is measured using the Black-Scholes formula. Measurement inputs include unit price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected distributions, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. The total fair value of the unit option plan as at March 31, 2011 is $6,057 (December 31, 2010 - $3,409 and January 1, 2010 $2,923).

13. Unitholders' equity (continued):

Unit-based compensation expense of $2,794 for the three months ended March 31, 2011 (March 31, 2010 - $1,372) was included in trust expenses in the statement of comprehensive income (loss).

A summary of the status of the unit option plan and the changes during the respective periods are as follows:

		March 31 2011		December 31 2010
	Units	**Weighted average exercise price**	Units	Weighted average exercise price
Outstanding, beginning of year	**1,560,333**	**$ 13.95**	2,086,434	$ 13.05
Granted	**550,000**	**19.57**	600,000	15.42
Exercised	**(16,667)**	**9.30**	(1,126,101)	13.06
Outstanding, end of period	**2,093,666**	**$ 15.46**	1,560,333	$ 13.95
Options exercisable, end of period	**585,333**	**$ 15.30**	410,333	$ 15.00

The options outstanding at March 31, 2011 are exercisable at varying prices ranging from $9.30 to $19.57 (December 31, 2010 - $9.30 to $16.56) with a weighted average remaining life of 8.6 years (December 31, 2010 - 8.4 years). The vested options are exercisable at varying prices ranging from $9.30 to $16.56 (December 31, 2010 - $9.30 to $16.56) with a weighted average remaining life of 7.9 years (December 31, 2010 - 7.7 years).

(b) *Distributions*

Under the REIT's Declaration of Trust, the total amount of income of the REIT to be distributed to unitholders for each calendar month shall be subject to the discretion of the trustees. The present intention of the trustees is to distribute and make payable to the unitholders all of 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 any year. For the three months ended March 31, 2011, the REIT declared per unit distributions of $0.20 (March 31, 2010 - $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 $0.02 for the three months ended March 31, 2011 (March 31, 2010 - $0.03).

13. Unitholders' equity (continued):

The details of the distributions are as follows:

	Three months ended March 31 **2011**	2010
Cash distributions to unitholders	**$ 26,240**	$ 23,811
Unit distributions (issued under the DRIP)	**6,716**	2,086
	$ 32,956	$ 25,897

(c) *Short form base shelf prospectus:*

On March 31, 2011, the Trusts issued a short form base shelf prospectus allowing the Trusts to offer and issue the following securities: (i) preferred units; ii) unsecured debt securities; (iii) subscription receipts exchangeable for Stapled Units and/or other securities of the Trusts; (iv) warrants exercisable to acquire Stapled Units and/or other securities of the Trusts; and (v) securities comprised of more than one of Stapled Units, debt securities, subscription receipts and/or warrants offered together as a unit, or any combination thereof having an offer price of up to $2,000,000 in aggregate (or the equivalent thereof, at the date of issue, in any other currency or currencies, as the case may be) at any time during the 25-month period that the short form base shelf prospectus (including any amendments) remains valid.

14. Accumulated other comprehensive loss:

	Cash flow hedges	Foreign operations	Total
Balance as at January 1, 2010 (note 3)	$ (3,254)	$ -	$ (3,254)
Transfer of realized loss on cash flow hedges to net income	92	-	92
Unrealized loss on translation of U.S. denominated foreign operation	-	(2,900)	(2,900)
Balance as at March 31, 2010	(3,162)	(2,900)	(6,062)
Transfer of realized loss on cash flow hedges to net income	280	-	280
Deferred income taxes	915	-	915
Unrealized gain on translation of U.S. denominated foreign operation	-	(4,549)	(4,549)
Balance as at December 31, 2010	(1,967)	(7,449)	(9,416)
Transfer of realized loss on cash flow hedges to net income	**96**	**-**	**96**
Unrealized gain on translation of U.S. denominated foreign operation	**-**	**(3,134)**	**(3,134)**
Balance as at March 31, 2011	**$ (1,871)**	**$ (10,583)**	**$ (12,454)**

15. Rentals from investment properties:

	Three months ended March 31	
	2011	2010
Rentals from investment properties	**$ 152,694**	$150,696
Straight-lining of contractual rent	**837**	2,105
Rent amortization of tenant inducements	**(237)**	(221)
	$ 153,294	$152,580

16. Finance cost - operations:

	Three months ended March 31	
	2011	2010
Contractual interest on mortgages payable	**$ 41,067**	$ 43,376
Contractual interest on debentures payable	**14,451**	11,043
Effective interest rate accretion	**395**	461
Bank interest and charges	**877**	387
Class B LP unit distributions	**1,223**	979
	58,013	56,246
Capitalized interest	**(15,393)**	(10,703)
	$ 42,620	$ 45,543

17. Finance cost - net loss on change in fair values:

	Three months ended March 31	
	2011	2010
Loss on fair value of convertible debentures	**$ (43,993)**	$ (23,250)
Loss on fair value of Class B LP units	**(13,975)**	(6,417)
Unrealized gain on derivative contracts (notes 7, 9 and 12(b))	**1,048**	69
	$ (56,920)	$ (29,598)

18. Amortization and impairment expense:

	Three months ended March 31	
	2011	2010
Depreciation of investment properties	**$ 24,989**	$ 24,207
Amortization of intangible assets on acquisitions	**9,448**	9,987
Amortization of above- and below- market rents	**5,316**	5,299
Amortization of leasing expenses	**1,070**	907
Impairment (reversal) loss on investment properties*	**3,494**	(1,164)
	$ 44,317	$ 39,236

* The impairment loss recognized in the three months ended March 31, 2011 relates to three investment properties owned by the REIT where the major tenant occupying the property has either vacated, or indicated their intention to vacate the property, and the market leasing conditions are less favourable than the existing leasing terms thereby reducing the value of the property. The reversal of impairment for the three months ended March 31, 2010 is due to changing market conditions for certain properties.

19. Supplemental cash flow information:

The change in non-cash operating items are as follows:

	Three months ended March 31	
	2011	2010
Accrued rent receivable	**$ (630)**	$ (2,141)
Prepaid expenses and sundry assets	**(3,170)**	(3,040)
Accounts receivable	**(1,726)**	(1,170)
Accounts payable and accrued liabilities	**10,290**	12,370
	$ 4,764	$ 6,019

19. Supplemental cash flow information (continued):

The following non-cash amounts have been excluded from operating, financing and investing activities in the combined statements of cash flows:

	Three months ended March 31	
	2011	2010
Acquisition of investment properties through assumption of mortgages payable, net of mark to market adjustments	**$ 6,643**	$ 36,276
Release of mortgage obligations upon lenders' consent	**(37,197)**	-
Release of mortgage interest obligation included in accounts payable and accrued liabilities	**(5,374)**	-
Non-cash transfer of investment properties to lenders	**28,047**	-
Non-cash distributions to unitholders (note 13(b))	**6,716**	2,086
Non-cash conversion of convertible debentures (note 10)	**17,705**	10
Increase (decrease) in accounts payable for properties under development	**(901)**	5,574
Increase (decrease) in accounts payable for tenant inducements	**(507)**	552
Non-cash proceeds on options exercised	**146**	-

During the three months ended March 31, 2011, interest paid amounted to $43,224 (March 31, 2010 - $43,837).

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. The support services relating to dispositions of investment properties are provided for a fee of 10% of the gain on sale of investment properties adjusted for the add back of accumulated depreciation and amortization. Services are provided by the Property Manager pursuant to a property management agreement which expires on January 1, 2015 with one automatic five-year extension.

During the three months ended March 31, 2011, the REIT recorded fees pursuant to this agreement of $3,520 (March 31, 2010 - $3,659), of which $215 (March 31, 2010 - $410) was capitalized to the cost of the investment properties acquired, $399 (March 31, 2010 - $442) was capitalized to properties under development and $2,685 (March 31, 2010 - $530) was capitalized to leasing expenses. The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the three months ended March 31, 2011, a further amount of $625 (March 31, 2010 - $625) has been earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager. In 2010, the Property Manager waived payment of the annual incentive fee.

Pursuant to the above agreement, as at March 31, 2011, $1,431 (December 31, 2010 - $1,682) was payable to the Property Manager.

20. Related party transactions (continued):

The REIT leases space to companies affiliated with the Property Manager. The rental income earned for the three months ended March 31, 2011 is $341 (March 31, 2010 - $332).

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 outlined below.

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

Investment properties and properties under development:

	March 31 2011	December 31 2010	January 1 2010
Canada	**$ 4,872,455**	$ 4,796,189	$ 4,386,571
United States	**1,029,482**	1,054,758	1,029,382
	$ 5,901,937	$ 5,850,947	$ 5,415,953

	Three months ended March 31	
	2011	2010
Rentals from investment properties:		
Canada	**$ 126,381**	$ 128,040
United States	**26,913**	24,540
	$ 153,294	$ 152,580

22. Income tax expense:

	Three months ended March 31	
	2011	2010
Income tax expense included in the determination of net income from continuining operations:		
Current	**$ 65**	$ 112
Deferred	**-**	4,098
	65	4,210
Deferred income tax included in the determination of other comprehensive income	**-**	-
	$ 65	$ 4,210

The Income Tax Act (Canada) contains legislation (the "SIFT Rules") affecting the tax treatment of "specified investment flow-through" ("SIFT") trusts. A SIFT includes a publicly-traded trust. The SIFT Rules provide for a transition period until 2011 for publicly-traded trusts like the REIT which existed prior to November 1, 2006. Under the SIFT Rules, distributions of certain income by a SIFT are not deductible in computing the SIFT's taxable income, and a SIFT is subject to tax on such income at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. The SIFT Rules do not apply to a publicly-traded trust that qualifies as a real estate investment trust under the Income Tax Act (Canada). The REIT completed the necessary tax restructuring to qualify as a real estate investment trust effective June 30, 2010. For periods before it qualified, the REIT recorded deferred tax liabilities in respect of temporary differences expected to reverse after January 1, 2011. Such deferred tax liability was reversed as an adjustment to deferred income tax expense in income and as an adjustment to other comprehensive income during the second quarter of 2010, when the REIT became a qualifying REIT.

The SIFT tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities are as follows:

	March 31 2011	December 31 2010	January 1 2010
Deferred income tax liabilities:			
Investment properties	**$ -**	$ -	$ 387,389
Properties under development	-	-	20,071
Accrued rent receivable	-	-	59,524
Mortgages receivable	-	-	336
Other assets	-	-	2,522
	-	-	469,842
Deferred income tax assets:			
Issue costs	-	-	8,296
Mortgages payable	-	-	493
	-	-	8,789
Net future income tax liability	**$ -**	$ -	$ 461,053

23. Commitments and contingencies:

(a) The REIT is currently constructing a 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 $301,000, including capitalized interest, over the remaining construction period. As at March 31, 2011, the total cost incurred on the project amounted to $1,245,708 (note 5) (December 31, 2010 - $1,150,094). 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. The first four tranche completion dates upon which floors are scheduled to be delivered to EnCana Corporation are as follows: floors 1-14 by July 3, 2011, floors 15-24 by August 29, 2011, floors 25-42 by October 12, 2011 and floors 43-59 by May 31, 2012. The project is approximately three months behind schedule from the first contractual tranche delivery date. The potential cost expected to be realized in the form of free rent for the late delivery of these tranches has been included in the budgeted soft costs. The $21,557 contingency for the project would be available for any additional delay costs.

(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, 2011, the REIT has outstanding letters of credit totalling $44,361 (December 31, 2010 - $44,524), including $17,831 (December 31, 2010 - $17,939) 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 12(a)).

(c) The REIT provides guarantees on behalf of third parties, including co-owners. As at March 31, 2011, the REIT issued guarantees amounting to $40,794 (December 31, 2010 - $41,307), expiring between 2011 and 2016 (December 31, 2010 - 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, 2011 the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $115,635 (December 31, 2010 - $116,357) which expires between 2013 and 2018 (December 31, 2010 - 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 investment 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.

24. Subsequent events:

(a) In May 2011, the REIT purchased an 80,000 square foot office property in Lithia Springs, Georgia for a purchase price of U.S. $60,750. A mortgage payable of U.S. $54,675 maturing in 2031 was assumed on closing.

(b) In May 2011, the REIT purchased two industrial properties in Saint John, New Brunswick and Boucherville, Quebec for a purchase price of $19,800.

(c) In May 2011, the REIT and Finance Trust completed a public offering, issuing 9,030,000 Stapled Units for gross proceeds of approximately $200,000.

(d) In June 2011, the REIT purchased 595 Bay Street, 20 and 40 Dundas Street, West and 306 York Street, which are collectively known as "Atrium on Bay" in Toronto, Ontario for a purchase price of $344,800. The REIT assumed a $190,000 mortgage maturing in 2017.

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, 2011

Dated: June 14, 2011

TABLE OF CONTENTS

SECTION I	
Basis of Presentation	1
Forward-Looking Disclaimer	1
Non-IFRS Financial Measures	2
Overview	2
Financial Highlights	4
Key Performance Drivers	4
Portfolio Overview	5
Outlook	7
Adoption of International Financial Reporting Standards	8
SECTION II	
Selected Annual Information	10
Discussion of Operations	11
Segmented Information	17
Assets	18
Liabilities	20
Equity	22
Funds from Operations	23
Adjusted Funds from Operations	25
Liquidity and Capital Resources	27
Off-Balance Sheet Items	29
Financial Instruments and Other Instruments	30
SECTION III	
Summary of Quarterly Results	30
SECTION IV	
Critical Accounting Estimates	31
Disclosure Controls and Procedures	32
Internal Control over Financial Reporting	32
SECTION V	
Risks and Uncertainties	33
Outstanding Unit Data	36
Subsequent Events	36
Additional Information	36

SECTION I

BASIS OF PRESENTATION

Financial data included in this Management's Discussion and Analysis ("MD&A") of Results of Operations and Financial Condition of H&R Real Estate Investment Trust (the "REIT") and H&R Finance Trust ("Finance Trust") and collectively (the "Trusts") for the three months ended March 31, 2011 includes material information up to June 14, 2011. Financial data provided has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The MD&A should be read in conjunction with the Condensed Interim Combined Financial Statements and appended notes for the three months ended March 31, 2011, together with the Combined Financial Statements and appended notes and MD&A for the year ended December 31, 2010. All amounts in this MD&A are in thousands of Canadian dollars, except where otherwise stated. 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.

FORWARD-LOOKING DISCLAIMER

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 and 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 June 14, 2011 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.

NON-IFRS FINANCIAL MEASURES

Property operating income, same-asset property operating income, funds from operations ("FFO"), adjusted funds from operations ("AFFO") and gross book value ("GBV") are all supplemental financial measures used by management to track the Trusts' performance. Such measures are not recognized under IFRS and therefore do not have standardized meanings prescribed by IFRS. Management believes that these non-IFRS 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-IFRS financial measures should not be construed as alternatives to comparable financial measures calculated in accordance with IFRS. 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. See "Funds from Operations" and "Adjusted Funds from Operations" for a reconciliation of IFRS measures to non-IFRS measures.

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 the 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.

The REIT is currently developing 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, on a triple net basis, to EnCana Corporation for a term of 25 years. EnCana Corporation is scheduled to begin occupancy in 2011. The project is currently 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. See "Funding of Future Commitments" for further information.

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, 2011, Finance Trust holds U.S. $123.1 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.

Finance Trust's 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 thousands of Canadian dollars except per unit amounts)	**March 31, 2011**	December 31, 2010
Total assets	**$6,136,206**	$6,056,298
Debt to gross book value of assets (per the REIT's Declaration of Trust)	**47.6%**	47.2%
Debt to gross book value of assets (per the combined financial statements)	**57.1%**	56.5%
Stapled Units outstanding	**147,312**	146,121
Class B LP Units of H&R Limited Partnership outstanding	**5,438**	5,438

	Three months ended March 31, 2011	Three months ended March 31, 2010
Property rental revenue	**$153,294**	$152,580
Property operating income	**104,426**	102,616
Adjusted funds from operations ("AFFO")	**56,554**	51,060
Weighted average number of basic Stapled Units for AFFO	**151,871**	149,309
AFFO per basic Stapled Unit	**0.37**	0.34
Distributions paid per Stapled Unit	**0.23**	0.18
Payout ratio per unit as a % of basic AFFO	**62.2%**	52.9%

Net earnings is reconciled to FFO which is reconciled to AFFO. AFFO is reconciled to cash provided by operations, being the most comparable IFRS measures to these non-IFRS financial measures. See pages 23-26.

KEY PERFORMANCE DRIVERS

OPERATIONS	3 months ended March 31	Office	Industrial	Retail	Total*
Occupancy as at March 31[(1)]	**2011**	**99.0%**	**99.2%**	**100.0%**	**99.3%**
	2010	98.6%	98.9%	99.9%	99.0%
Occupancy – same asset as at March 31[(2)]	**2011**	**99.0%**	**99.2%**	**100.0%**	**99.3%**
	2010	98.6%	98.9%	99.9%	99.0%
Average contractual rent per square foot for the three months ended March 31[(3)]	**2011**	**$19.61**	**$5.92**	**$12.67**	**$10.26**
	2010	$19.75	$5.70	$12.28	$10.03

* weighted average total

(1) Excluding those properties whose tenants have filed for protection under Chapter 11 of the United States Bankruptcy Code and where the REIT has subsequently handed over control of the subject properties to the non-recourse mortgage lender.

(2) For continuing operations only and excluding those properties whose tenants have filed for protection under Chapter 11 of the United States Bankruptcy Code, and where the REIT has subsequently handed over control of the subject properties to the non-recourse mortgage lender.

(3) Same asset refers to those properties owned by the REIT for the entire 15-month period ended March 31, 2011 and excludes any assets classified as held for sale and those assets whose tenants have filed for protection under Chapter 11 of the United States Bankruptcy Code, and where the REIT has subsequently handed over control of the subject properties to the non-recourse mortgage lender.

	March 31, 2011	December 31, 2010
Average remaining term to maturity of leases (years)	**10.8**	11.1
Average remaining term to maturity of mortgages payable (years)	**7.8**	8.0

PORTFOLIO OVERVIEW

The geographic diversification of the REIT's portfolio (excluding properties whose tenants have filed for Chapter 11 protection with a United States bankruptcy court) as at March 31, 2011 is outlined in the charts below:

NUMBER OF PROPERTIES	Ontario	United States	Alberta	Quebec	Other	Total
Office	22	4	4	1	4	35
Industrial	53	16	19	11	19	118
Retail	32	86	5	5	3	131
Total	107	106	28	17	26	284

Square Feet (in thousands)	Ontario	United States	Alberta	Quebec	Other	Total
Office	5,208	430	1,406	452	884	8,380
Industrial	9,450	6,314	2,810	2,850	1,176	22,600
Retail	1,759	4,954	515	498	524	8,250
Total	16,417	11,698	4,731	3,800	2,584	39,230

PROPERTIES UNDER DEVELOPMENT
(in thousands of Canadian dollars)

Project	Address	**March 31, 2011**	December 31, 2010
The Bow	5th Ave. at Centre Street, Calgary, AB	**$1,245,708**	$1,150,094
Heart Lake	Mayfield West Business Park, Caledon, ON	**80,082**	80,195
Airport Road	7900 Airport Rd., Brampton, ON	**49,519**	38,042
		$1,375,309	$1,268,331

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
2011*	$75,031	$65,777	$140,808	5.4%	6.4%
2012	99,702	262,275	361,977	14.0%	6.7%
2013	95,403	107,604	203,007	7.8%	7.5%
2014	96,007	182,632	278,639	10.7%	6.2%
2015	94,562	224,264	318,826	12.3%	5.3%
Thereafter			1,291,771	49.8%	
			2,595,028	100%	
Mortgages payable due on demand(1)			38,946		
Financing cost and mark-to-market adjustment arising on acquisitions(2)			(3,762)		
Total			$2,630,212		

* For the balance of the year

(1) Relates to the three non-recourse mortgages to the REIT for investment properties in which the tenants (Boscov's Department Stores and Great Atlantic & Pacific Tea Company) have filed for protection under Chapter 11 of the United States Bankruptcy Code. The REIT subsequently handed over control of the subject properties to the non-recourse mortgage lender and expects to be released from any further obligations.

(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 and is recognized in finance cost 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 finance cost over the life of the applicable mortgage.

TOP TWENTY SOURCES OF REVENUE BY TENANT

	Tenant	% of rentals from income properties[1]	Number of locations	REIT owned sq.ft. (in 000's)	Average lease term to maturity (in years)
1.	Bell Canada	11.6	4	1,734	14.5
2.	TransCanada Pipelines Limited	7.1	2	945	10.0
3.	Telus Communications	5.6	2	943	11.5
4.	Bell Mobility	5.5	2	775	14.6
5.	Rona Inc.	3.9	14	2,151	8.8
6.	Versacold Logistics Canada Inc.	3.4	12	1,733	16.5
7.	Canadian Tire Corp.	3.4	4	2,189	15.0
8.	Royal Bank of Canada	3.1	4	460	5.7
9.	Nestle USA	2.3	3	2,168	6.7
10	Lowes Companies Inc.	2.2	11	1,435	8.0
11.	Nestle Canada Inc.	1.9	1	171	8.3
12.	Shell Oil Products	1.8	18	249	11.4
13.	Purolator Courier	1.8	12	1,071	9.9
14.	Finning International	1.6	16	893	11.0
15.	Marsh Supermarkets	1.6	9	548	15.7
16.	Public Works of Canada	1.4	3	257	5.7
17.	Sobey's Inc.	1.1	10	347	11.1
18.	Hudson's Bay Company	1.1	3	937	8.6
19.	Loblaw Properties Limited	1.0	1	716	11.8
20.	Metro Inc.	0.9	9	338	11.6
	Total	**62.3%**	**140**	**20,060**	

(1) The percentage of rentals from investment properties is based on estimated annualized gross revenue excluding the straight lining of contractual rent and investment properties held for sale.

	Office		Industrial		Retail		Total	
LEASE EXPIRIES	% of sq.ft.	Rent per sq.ft. ($) on expiry	% of sq.ft.	Rent per sq.ft. ($) on expiry	% of sq.ft.	Rent per sq.ft. ($) on expiry	% of sq.ft.	Rent per sq.ft. ($) on expiry
2011*	0.3	22.12	0.5	9.98	0.1	25.52	0.9	15.75
2012	0.8	17.99	1.8	5.06	0.1	20.56	2.7	9.47
2013	0.5	18.59	3.8	5.36	0.4	9.99	4.7	7.16
2014	1.4	16.16	3.5	4.47	0.3	7.23	5.2	7.78
2015	1.1	22.17	1.3	7.57	0.3	27.77	2.7	15.76
	4.1	18.86	10.9	5.50	1.2	15.92	16.2	9.65

* For the balance of the year

OUTLOOK

Construction on the Bow is approximately 81% complete and currently on budget. The budgeted $1.5-billion office development (net of revenue expected to be earned during occupancy of earlier tranches) is being constructed by the REIT in downtown Calgary. The sole tenant at the building, EnCana Corporation, is scheduled to begin taking occupancy in 2011 with full occupancy of the 58-storey landmark tower during 2012, at which time the Bow is expected to emerge as one of the highest quality office towers in Canada and as the keystone of the REIT's portfolio of properties. See "Funding of Further Commitments" for further information.

During the first quarter of 2011, the REIT acquired two properties in the United States for a cash purchase price of $31.6 million. The REIT partially funded the acquisition of the above properties with mortgages payable totalling $6.6 million at a contractual interest rate of 7.02% for an average term of over 20 years. The REIT's initial levered return from these acquisitions is expected to be approximately 8.1%. In the United States, the recovery in the commercial real estate markets and capital markets has been much slower, resulting in higher capitalization rates than equivalent Canadian properties with financing for high-quality properties becoming increasingly available at attractive pricing.

Subsequent to the quarter end, the REIT closed the previously announced purchase of Atrium on Bay for $344.8 million. A $190 million mortgage maturing in 2017 was assumed on closing. Additionally, the REIT acquired the following three properties: an office property in Lithia Springs, Georgia for U.S. $60.8 million, with a mortgage payable of U.S. $54.7 million maturing in 2031; and two properties with the same tenant, located in Saint John, New Brunswick and Boucherville, Quebec for $19.7 million.

Equity and credit market concerns have eased over the past year and continued to steadily improve which has allowed the REIT to reduce financing costs and strengthen its balance sheet. In January 2011, the REIT issued $180 million of unsecured senior debentures at an average contractual interest rate of 4.78% for an average term of five years. On May 31, 2011, the REIT and Finance Trust issued 9,030,000 units for gross proceeds of approximately $200 million which were used to fund the purchase of Atrium on Bay and to repay bank indebtedness leaving the REIT's $295 million operating facility free to fund future acquisitions which the REIT expects to continue on a select and disciplined basis.

The REIT's portfolio is performing well and management expects continued growth from contracted rental escalations and accretive acquisitions. In short, management remains very optimistic and excited about its ability to continue to grow and prosper in the coming year. Consistent with this positive outlook, the trustees have adopted the following distribution policy:

Distribution Period	Intended Monthly Distribution Per Stapled Unit	Intended Annualized Distribution Per Stapled Unit
Q2 2011 (April, May and June)	$0.07917	$0.95
Q3 2011 (July, August and September)	$0.08333	$1.00
Q4 2011 (October, November and December)	$0.08750	$1.05
Q1 2012 (January, February and March)	$0.09167	$1.10
Q2 2012 (April, May and June)	$0.09583	$1.15
Q3 2012 (July, August and September)	$0.10000	$1.20
Q4 2012 (October, November and December)	$0.10417	$1.25

The trustees retain the right to re-evaluate the distribution policy from time to time as they consider appropriate. As all distributions remain subject to approval and declaration by the Trusts' trustees, there is no assurance that the actual distributions declared will be as provided in the distribution policy.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board ("AcSB") has mandated the adoption of IFRS effective for interim and annual periods beginning on or after January 1, 2011 for Canadian publicly accountable profit-oriented enterprises. As a result, the Trusts have adopted IFRS effective January 1, 2011 and have prepared the current unaudited condensed interim combined March 31, 2011 financial statements in accordance with IFRS accounting policies. Furthermore, the first annual financial statements that comply with IFRS will be the December 31, 2011 financial statements. The Trusts' combined financial performance and financial position as disclosed under IFRS uses a similar framework to Canadian GAAP however, there are significant differences relating to measurement, recognition and disclosure.

Key changes between Canadian GAAP and IFRS:

For the actual quantitative effect of the changes below, please refer to note 3 of the financial statements.

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

(a) Investment properties

The REIT has elected to apply the fair value as deemed cost for certain properties as at January 1, 2010 ("transition date") and the cost model for subsequent accounting for its investment properties. The carrying values of these selected properties were adjusted to their fair market value at the transition date. Any adjustment to the carrying value at the transition date is reflected as an adjustment in investment properties and an offsetting adjustment to retained earnings.

(b) Foreign currency translation election

In accordance with IFRS 1, *First-time Adoption of International Finance Reporting Standards* ("IFRS 1"), the REIT has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations to be nil at January 1, 2010, with the balance reclassified to retained earnings. The only effect of this is a restatement within the accounts of the unitholders' equity.

(c) Business combination election

In accordance with IFRS 1, the REIT has elected to apply the business combination accounting standard prospectively to all business combinations subsequent to the January 1, 2010 transition date.

(d) Impairment of investment properties

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists, and then measuring impairment by comparing asset carrying values to their fair value (which is calculated using discounted cash flows). IAS 36, *Impairment of Assets* uses a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted cash flows). This resulted in write-downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. Unlike Canadian GAAP, which does not permit reversals, IFRS allows the reversal of an impairment loss in prior periods for an asset if there has been a change in the estimates used to determine the assets recoverable amounts since the last impairment loss was recognized.

(e) Accrued rent receivable

Under IFRS and Canadian GAAP, rental revenue is recognized on a straight-line basis over the term of the lease, resulting in accruals for rents that are not billable or due until future years. Under IFRS, the accrued rent receivable amount resulting from straight-lining rent is determined from the inception of each lease or the date the REIT assumed the lease. Under Canadian GAAP only leases in place from January 1, 2004 were straight-lined.

(f) Convertible debentures

Under IFRS, the REIT has elected to measure the outstanding convertible debentures at fair value. At each period end, the fair value of these convertible debentures is measured based on the quoted price of each series of convertible debentures as listed on the TSX. The fluctuation in the fair value between each period, is charged to gain (loss) in changes in fair values in comprehensive income. Since the debt is convertible into redeemable Stapled Units which meets the definition of a liability and it has met an exemption to be classified as equity, there is no equity value attributable to the holders' conversion feature. Under Canadian GAAP, convertible debentures were recorded as a liability, net of issue costs, and equity, which represents the holders' option to convert the convertible debentures into Stapled Units. Interest expense was recorded as a charge to income using an effective rate representing the coupon rate and the effective rate being credited to the debt component of the convertible debentures such that, at maturity, the debt component was equal to the face value of the then outstanding convertible debentures.

(g) Unit-based compensation

Under IFRS, the REIT is required to measure its cash-settled unit-based option plan at fair value and record a liability. The fluctuation in the fair value between each period is charged to trust expenses in comprehensive income. Under Canadian GAAP, the REIT expensed and charged to equity, the cost of unit-based compensation over the weighted average vesting period.

(h) Class B LP Units (non-controlling interest)

Under IAS 32, *Financial Instruments: Presentation* ("IAS 32"), the Class B LP Units of H&R Portfolio Limited Partnership ("HRLP") are considered puttable instruments and are classified as financial liabilities in the condensed interim combined financial statements. Management has designated the Class B LP Units as fair value through profit and loss such that at each period end, the fair value of these units is measured based on the quoted price of Stapled Units on the TSX. The fluctuation in the fair value is charged to comprehensive income and distributions on the Class B LP Units of HRLP are reflected as a component of finance costs in earnings. Under Canadian GAAP, non-controlling interest was presented as a separate item between liabilities and unitholders' equity in the statement of financial position, and the non-controlling interests' share of income and other comprehensive income were deducted in calculating net income and comprehensive income of the REIT.

(i) Discontinued operations

The definition of discontinued operations under IFRS is more restrictive than under Canadian GAAP. Only disposals of significant operations, such as a major line of business or geographical area of operation, meet the IFRS requirements to present the results as discontinued operations. Discontinued operations in the financial statements as presented pursuant to Canadian GAAP have been reclassified to continuing operations on the IFRS financial statements, as they do not meet the IFRS definition of discontinued operations. This does not affect unitholders' equity on transition.

(j) Net loss on foreign exchange

The foreign exchange gain or loss recorded in net income as a result of exchanging Finance Trust's U.S. dollar note receivable from U.S. Holdco is not eliminated on combination as U.S. Holdco is a U.S. denominated foreign operation of the REIT, which results in the foreign exchange on the note payable being reported in accumulated other comprehensive income.

(k) Rent amortization of above- and below-market rents

Under Canadian GAAP, the purchase price of an acquired property was recorded in several components, including an intangible asset/liability for above- and below-market leases. These assets/liabilities were amortized against revenue over the life of the underlying leases. Under IFRS, these assets/liabilities are amortized in amortization and impairment expense.

(l) Deferred tax liability

Under both IFRS and Canadian GAAP, deferred income taxes are recorded for the temporary differences arising in respect of assets and liabilities for the periods when the REIT did not meet the REIT conditions. This is determined at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Under Canadian GAAP, future

distributions are factored into the tax rate applied. Under IFRS, the tax rate applied to determine the deferred income liability on January 1, 2010 and March 31, 2010 was 46.41%, the applicable tax rate excluding future distributions.

(m) Income earned during construction of the Bow

Included in the budget for the Bow is approximately $37 million of rental income expected to be received from EnCana Corporation prior to practical completion of the building which is currently recorded in the current budget in the line item "recoveries and other income". Under IFRS, income earned during the construction of the property will not reduce the cost to construct the Bow, but will rather be included in rentals from income properties which will cause a corresponding increase to the cost of the project. These figures assume all occupancies occur on time.

(n) Stapled Units

Under IAS 32, puttable instruments such as the Stapled Units, are generally classified as financial liabilities unless, the exemption criteria are met for equity classification. As a result of the REIT receiving consent of its unitholders to modify the REIT's Declaration of Trust to eliminate the mandatory distribution and leave distributions to the discretion of the trustees and the ability of the trustees to fund its distributions by way of issuing additional units prior to the amendment, the REIT met the exemption criteria under IAS 32 for equity classification. Finance Trust also met the exemption criteria under IAS 32 for equity classification. Nevertheless, the Stapled Units are not considered ordinary units under IAS 33, *Earnings Per Share*, and therefore an income (loss) per unit calculation is not presented.

SECTION II

SELECTED ANNUAL INFORMATION

The following table summarizes certain financial information of the Trusts for the years indicated below:

(in thousands of Canadian dollars except per unit amounts)	Year Ended December 31 2010[1]	Year Ended December 31 2009[1]	Year Ended December 31 2008[1]
Rentals from investment properties	$617,427	$605,165	$591,954
Finance income	2,589	6,222	3,294
Net earnings	496,600	86,525	97,706
Comprehensive income	490,438	75,348	163,711
Total assets	6,056,298	5,351,123	5,442,074
Mortgages payable	2,706,707	2,818,476	3,157,470
Debentures payable	965,828	565,758	104,820
Cash distributions per unit	$0.79	$0.72	$1.44

(1) 2008 and 2009 figures are based on Canadian GAAP, prior to change over to IFRS. The 2010 figures are based on IFRS.

DISCUSSION OF OPERATIONS

(in thousands of Canadian dollars)	Three months ended March 31 2011	2010	% Change
Property operating income:			
Rentals from investment properties	**$153,294**	$152,580	-
Property operating costs	**(48,868)**	(49,964)	(2)
	104,426	102,616	2
Finance costs:			
Finance income	**366**	1,274	(71)
Finance cost - operations	**(42,620)**	(45,543)	(6)
Gain (loss) on extinguishment of debt	**14,785**	(38,834)	(138)
Loss on change in fair value	**(56,920)**	(29,598)	92
	(84,389)	(112,701)	(25)
Amortization and impairment expense	**(44,317)**	(39,236)	13
Trust expenses	**(4,770)**	(3,634)	31
Gain on sale of investment properties	**-**	3,633	(100)
Net loss on foreign exchange	**(2,199)**	(3,560)	(38)
	(135,675)	(155,498)	(13)
Net loss before income taxes	**(31,249)**	(52,882)	
Income tax expense	**(65)**	(4,210)	
Net loss	**(31,314)**	(57,092)	
Other comprehensive loss:			
Unrealized loss on translation of U.S. denominated foreign operations	**(3,134)**	(2,900)	
Transfer of realized loss on cash flow hedges to net earnings	**96**	92	
	(3,038)	(2,808)	
Total comprehensive loss	**($34,352)**	($59,900)	

The change in net loss for both the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 is mainly due to the gain (loss) on extinguishment of debt and the loss on change in fair value.

Rentals from Investment Properties

Rentals from investment 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 Investment Properties	Three months ended March 31		
(in thousands of Canadian dollars)	**2011**	2010	Change
Same-asset – current rentals	**$148,635**	$149,211	($576)
Same-asset – straight-lining of contractual rent	**658**	2,225	(1,567)
Same-asset rent amortization of tenant inducements	**(237)**	(221)	(16)
Acquisitions – current rentals, rent amortization and straight-lining of contractual rent	**4,201**	376	3,825
Terminated leases due to U.S. bankruptcies	**37**	756	(719)
Assets held for sale	**-**	233	(233)
Total rentals	**$153,294**	$152,580	$714

The decrease in same-asset current rentals of $0.6 million for Q1 2011 as compared to Q1 2010 is primarily due to the following items:

- an increase of $1.5 million in rent escalations which has an inverse relationship with straight-lining of contractual rent;
- an increase of $0.4 million in current rentals due to a one-time lease termination payment received;
- higher tenant recoveries of $1.3 million which resulted from higher regular property operating expenses,
- a decrease of $3.3 million in additional rent recoverable from tenants in accordance with their leases for items which were capitalized to building improvements; and
- a decrease of $0.6 million due to the weakening of the US dollar, offset by the cash settlement of the forward exchange contracts. The average exchange rate for the three months ended March 31, 2011 was Canadian $0.99 for each U.S. $1.00 (Q1 2010 - $1.04).

The change in straight-lining of contractual rent of $1.6 million is primarily due to rental increases of $1.5 million. The difference of $0.1 million is mainly due to a lease termination adjustment.

Rentals from acquisitions including current rentals, rent amortization and straight-lining of contractual rent increased by $3.8 million. There have been a total of 18 property acquisitions between January 1, 2010 and March 31, 2011, all of which were in the United States.

Property Operating Costs

For Q1 2011, realty taxes, maintenance, utilities and property management fees represented 55.1%, 25.1%, 15.1%, and 1.9%, respectively, of total property operating costs (Q1 2010 - 53.8%, 23.3%, 13.5% and 5.9%). Maintenance includes costs relating to such items as cleaning, interior and exterior building repairs and maintenance, elevator, HVAV, security and wages and benefits.

Property Operating Costs	Three months ended March 31		
(in thousands of Canadian dollars)	**2011**	2010	Change
Same-asset property operating costs	**$47,999**	$49,154	($1,155)
Acquisitions	**836**	67	769
Terminated leases due to U.S. bankruptcies	**28**	447	(419)
Assets held for sale	**5**	296	(291)
Total property operating costs	**$48,868**	$49,964	($1,096)

The decrease in same-asset property operating costs of $1.2 million for Q1 2011 as compared to Q1 2010 is due primarily to the following reasons:

- lower management fees of $2.1 million due to a higher portion of management fees being capitalized to deferred leasing in Q1 2011 compared to Q1 2010;
- higher regular property operating expenses of $1.1 million; and
- lower U.S. dollar operating costs of $0.2 million 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, 2011 was Canadian $0.99 for each U.S. $1.00 (Q1 2010 - $1.04).

Same-Asset Property Operating Income*	Three months ended March 31		
(in thousands of Canadian dollars)	**2011**	2010	Change
Same-asset current rentals and straight-lining of contractual rent	**$149,293**	$151,436	($2,143)
Same-asset - property operating costs	**47,999**	49,154	(1,155)
Total same-asset - property operating income	**101,294**	102,282	(988)
Total same-asset - property operating income excluding straight-lining of contractual rent	**100,636**	100,057	579

* Same-asset property operating income excludes the properties where the tenants have terminated their leases due to U.S. bankruptcies and the REIT has subsequently handed over control of the subject properties to the non-recourse mortgage lender.

Total same-asset property operating income, excluding straight-lining of contractual rent, has increased by $0.6 million for the three months ended March 31, 2011 as compared to the respective 2010 period. The net change in same-asset property operating income excluding straight-lining of contractual rent resulted from an increase in Canada of $0.5 million and an increase of $0.1 million in the United States, as shown below:

	Three months ended March 31		
Canada (in thousands of Canadian dollars)	**2011**	2010	Change
Same-asset current rentals	**$125,770**	$126,264	($494)
Same-asset property operating costs	**44,334**	45,286	(952)
Same-asset property operating income excluding straight-lining of contractual rent	**81,436**	80,978	458
United States (in thousands of Canadian dollars)			
Same-asset current rentals	**22,865**	22,947	(82)
Same-asset property operating costs	**3,665**	3,868	(203)
Same-asset property operating income excluding straight-lining of contractual rent	**19,200**	19,079	121
Total same-asset property operating income*	**$100,636**	$100,057	$579

* Same-asset property operating income excludes the properties where the tenants have terminated their leases due to U.S. bankruptcies where the REIT has subsequently handed over control of the subject properties to the non-recourse mortgage lender.

Finance Income

	Three months ended March 31		
(in thousands of Canadian dollars)	**2011**	2010	Change
Finance income	**$366**	$1,274	($908)

Finance income decreased when comparing Q1 2011 to Q1 2010 mainly due to the collection of a $58 million mortgage receivable in April 2010.

Finance Cost-Operations

	Three months ended March 31		
(in thousands of Canadian dollars)	**2011**	2010	Change
Contractual interest on mortgages payable	**$41,067**	$43,376	($2,309)
Contractual interest on debentures payable	**14,451**	11,043	3,408
Effective interest rate accretion	**395**	461	(66)
Bank interest and charges	**877**	387	490
Class B LP Unit distributions	**1,223**	979	244
	58,013	56,246	1,767
Capitalized interest	**(15,393)**	(10,703)	(4,690)
Finance cost - operations	**$42,620**	$45,543	($2,923)

Included in mortgage interest for the three months ended March 31, 2011 is an accrual of $1.0 million (Q1 2010 - $2.4 million) which relates to interest accrued on mortgages for properties where the tenant has filed for protection under Chapter 11 of the United States Bankruptcy Code. This accrual will be reversed into earnings when the lender accepts title to the properties and releases the REIT's subsidiaries from all obligations under these mortgages. A decrease of $0.9 million in contractual interest on mortgages

payable for the three months ended March 31, 2011 is due to a lower overall mortgage payable balance as a result of the REIT making regular mortgage amortization payments. As at both March 31, 2011 and December 31, 2010, the REIT's weighted average contractual mortgage rate was 6.2%.

Debenture interest increased by $3.4 million due to the following; (i) an increase of $4.2 million from non-convertible debentures, including the series C senior unsecured debentures (the "series C senior debentures") issued in Q3 2010 and the series D senior unsecured debentures (the "series D senior debentures") issued in Q1 2011; (ii) an increase of $1.3 million from convertible debentures mainly due to the 5.90% series D convertible debentures due June 30, 2020 issued in Q3 2010; and (iii) a decrease of $2.1 million in debenture interest due to the repayment of the debentures issued to Fairfax Financial Holdings Limited or its affiliates (the "Fairfax Debentures").

The amount of capitalized interest has increased as a result of the REIT funding the Bow development.

Finance Cost - Gain (Loss) on Extinguishment of Debt

(in thousands of Canadian dollars)	Three months ended March 31		
	2011	2010	Change
Gain (loss) on extinguishment of debt	**$14,785**	($38,834)	$53,619

During Q1 2011, the REIT was legally released from its mortgages on the two Bruno's Supermarkets LLC and two Boscov's Department Stores upon the lender accepting title to the properties. As a result, the income properties, the mortgages and the accrued interest on the mortgages were all derecognized resulting in a gain (loss) on extinguishment of debt of $14.8 million for the three months ended March 31, 2011.

In February 2010, the REIT repaid the outstanding Fairfax Debentures having an aggregate face value of $200 million for a total repurchase price of $230 million. The repurchase price included accrued interest of approximately $2 million. The REIT recognized a one-time non-recurring charge to the net income of approximately $39 million, representing the difference between the repurchase price, excluding accrued interest expense, and the carrying value of the Fairfax Debentures of $189 million.

Finance Cost - Net Loss on Change in Fair Value

(in thousands of Canadian dollars)	Three months ended March 31		
	2011	2010	Change
Loss on fair value of convertible debentures	**($43,993)**	($23,250)	($20,743)
Loss on fair value of Class B LP Units	**(13,975)**	(6,417)	(7,558)
Unrealized gain on derivative contracts	**1,048**	69	979
Finance cost - net loss on change in fair value	**($56,920)**	($29,598)	($27,322)

The REIT elected to fair value the convertible debentures under IFRS which eliminates the requirement to separately fair value any embedded derivatives. The loss on fair value of debentures is due to the increasing fair value liability of the convertible debentures based on quoted market prices. Under IFRS, Class B LP Units are considered puttable instruments which are fair valued and classified as a financial liability. The loss on fair value of Class B LP Units is due to the increase in the Class B LP unit fair value during the respective quarter. At the end of each quarter, the fair value of each Class B LP Unit is measured based on the quoted price of stapled units on the TSX which was $22.00 on March 31, 2011 ($19.43 - December 31, 2010, $16.63 - March 31, 2010).

The unrealized gain (loss) on derivative contracts resulted from the REIT entering into an interest rate swap which effectively locked the interest rate on the Bow construction facility at 4.65%. The interest expense on this facility is capitalized to properties under development during the eligible period. At the end of each reporting period, the interest rate swap is marked-to-market, resulting in an unrealized gain or loss recorded in net income. Upon completion of the development of the Bow and cessation of capitalizing interest, the difference between the hedged rate and the actual rate will be recorded as a realized gain or loss in net earnings.

In May 2010, the REIT entered into a foreign exchange forward contract with a Canadian chartered bank which effectively locked the REIT's rate to exchange U.S. $2 million per month at 1.0402 for a two-year period in order to lock in a portion of the REIT's projected USD FFO and AFFO at a fixed Canadian dollar amount. The remaining foreign exchange forward contracts are marked-to-market through earnings each reporting period. As each month's contract is realized, any gain or loss is recorded into earnings at that time.

In June 2010, the REIT secured a floating rate mortgage on a U.S. property. In order to fix the interest rate, the REIT entered into an interest rate swap, which is marked-to-market through profit or loss each reporting period.

Amortization and Impairment Expense	Three months ended March 31		
(in thousands of Canadian dollars)	**2011**	2010	Change
Depreciation of investment properties	**$24,989**	$24,207	$782
Amortization of intangible assets on acquisitions	**9,448**	9,987	(539)
Amortization of above- and below- market rents	**5,316**	5,299	17
Amortization of leasing expenses	**1,070**	907	163
Impairment (reversal) loss on investment properties	**3,494**	(1,164)	4,658
Amortization and impairment expenses	**$44,317**	$39,236	$5,081

All Canadian and U.S. properties were tested for impairment at January 1, 2010 in accordance with IAS 36 and a write-down of $126.3 million was taken on January 1, 2010. The impairment loss taken in Q1 2011 was due to three properties where the current fair market value fell below their net book value. The reversal of the impairment loss recorded in Q1 2010 was the result of changing economic conditions.

Trust Expenses	Three months ended March 31		
(in thousands of Canadian dollars)	**2011**	2010	Change
Trust expenses	**$4,770**	$3,634	$1,136

These expenses are primarily comprised of salaries, professional fees, trustee fees and unit-based compensation expense. The primary reason for the increase quarter over quarter is due to unit-based compensation expense which was $2,794 for the three months ended March 31, 2011 (March 31, 2010 - $1,372).

Gain on Sale of Investment Properties	Three months ended March 31		
(in thousands of Canadian dollars)	**2011**	2010	Change
Gain on sale of investment properties	-	$3,633	($3,633)

The gain on sale of investment properties was from the sale of the 110 Sheppard office building and 2390 Argentia Road industrial building in Q1 2010.

Net Loss on Foreign Exchange	Three months ended March 31		
(in thousands of Canadian dollars)	**2011**	2010	Change
Net loss on foreign exchange	**$2,199**	$3,560	($1,361)

The net loss on foreign exchange, which was recorded in the financial statements of Finance Trust, is due to a difference in exchange rates as the U.S. Holdco Notes receivable by Finance Trust 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 on combination as U.S. Holdco has a different functional currency than that of the REIT.

Income Tax Expense	Three months ended March 31		
(in thousands of Canadian dollars)	**2011**	2010	Change
Current income tax expense	**$65**	$112	($47)
Deferred income tax expense	-	4,098	(4,098)
Total income tax expense	**$65**	$4,210	($4,145)

The REIT is generally subject to tax in Canada under the *Income Tax Act* (Canada) ("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.

During the second quarter of 2010, the REIT completed the necessary restructuring to qualify for the SIFT Exemption (as defined herein) under the SIFT Rules (as defined herein) commencing January 1, 2011. See the "Tax Risk" section for further discussion. Accordingly, the net deferred income tax liability was reversed into earnings in the second quarter of 2010.

SEGMENTED INFORMATION

The REIT invests in income producing properties in both Canada and the United States with creditworthy tenants 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:

Property operating income for the three months ended March 31, 2011 (in thousands of Canadian dollars)	**Canada**	**United States**	**Total**
Rentals from investment properties	**$126,381**	**$26,913**	**$153,294**
Property operating costs	**(44,339)**	**(4,529)**	**(48,868)**
Property operating income	**$82,042**	**$22,384**	**$104,426**

Property operating income for the three months ended March 31, 2010 (in thousands of Canadian dollars)	Canada	United States	Total
Rentals from investment properties	$128,040	$24,540	$152,580
Property operating costs	(45,577)	(4,387)	(49,964)
Property operating income	$82,463	$20,153	$102,616

The change in U.S. property operating income of $2.2 million for the three months ended March 31, 2011, as compared to the respective prior period, is primarily due to an increase in rentals from acquisitions as the REIT has acquired 18 properties between January 1, 2010 and March 31, 2011. Had the property operating income for properties located in the United States been shown in U.S. dollars, and excluding the sundry income earned from a hedging instrument on foreign exchange, the property income from those properties where the tenants have terminated their leases and the acquisitions during 2011, the adjusted property operating income would have been $18.9 million for the three months ended March 31, 2011 as compared to income of $18.8 million for the three months ended March 31, 2010.

ASSETS

Investment Properties

The REIT acquired two properties during the period ended March 31, 2011. These acquisitions less mortgages assumed were funded from the REIT's general operating facility and funds from debenture issuances. There were 16 properties acquired during the year ended December 31, 2010.

2011 Acquisitions:

Property	Year Built	Property Type	Date Acquired	Square Footage	Cash Purchase Price ($ Millions)	Anchor Tenants	Remaining Lease Term (years)
665 American Legion Dr., Teaneck, NJ	1961	Retail	Feb 15, 2011	42,047	$10.1	Stop & Shop	7
3773-3841 S. Hamilton Rd., Columbus, OH	2009	Retail	Feb 18, 2011	118,066	21.5	Giant Eagle	17
Total				160,113	$31.6		

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 partially funded the acquisition of the Teaneck, New Jersey property with a mortgage payable totalling $6,642, bearing interest at an average contractual rate of 7.02% per annum. This mortgage has a term of 20 years remaining and is non-recourse to the REIT but has recourse to the specific property to which the mortgage applies. The REIT has secured a mortgage commitment on the Columbus, Ohio property for U.S. $14.1 million which is expected to close in June 2011.

The portfolio continues to remain in good condition. The average age of the total portfolio from the date built or renovated is 17.1 years at March 31, 2011 (December 31, 2010 - 16.9 years) and the average age of properties by type of asset is as follows:

Average Age by Type of Asset	**March 31, 2011 (years)**	December 31, 2010 (years)
Office	**19.7**	19.5
Industrial	**17.8**	17.6
Retail	**12.4**	12.1
Total	**17.1**	16.9

Legal title to each of the United States properties is held by a separate legal entity which is 100% owned, directly or indirectly, by H&R REIT (U.S.) Holdings Inc. ("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 investment properties expressed by type of asset and by region is as follows:

Type of Asset (millions)	**Fair Value March 31, 2011**	**Net Book Value March 31, 2011**	Net Book Value December 31, 2010
Office	**$2,504**	**$2,061**	$2,081
Industrial	**1,687**	**1,289**	1,307
Retail	**1,363**	**1,177**	1,195
Total	**$5,554**	**$4,527**	$4,583

Region (millions)	Fair Value March 31, 2011	Net Book Value March 31, 2011	Net book Value December 31, 2010
Ontario	$2,552	$2,067	$2,085
Alberta	1,017	754	761
Quebec	351	259	261
Other	489	417	421
Canada	4,409	3,497	3,528
United States	1,145	1,030	1,055
Total	$5,554	$4,527	$4,583

Significant costs associated with income properties are either capitalized and depreciated or expensed in the year incurred. 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
2011*	$20 million	$12 million	$8 million	$17 million	$12 million	$5 million
2012	$19 million	$12 million	$7 million	$16 million	$12 million	$4 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 tenant's 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. This budget includes revenue of approximately $37 million to be earned during the construction period which will be recognized in revenue for IFRS purposes and not netted against actual costs incurred for the project. The budget includes the cost to construct 1,360 parking stalls. The REIT has entered into fixed price contracts amounting to approximately 94% 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 99% of the total budget before contingencies. See Section V for a discussion on development and financing risk relating to the Bow.

The building is fully pre-leased, on a triple net basis, to EnCana Corporation for 25 years. 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, 2011, the REIT incurred additional costs of $95.6 million in this project to bring the REIT's total investment to $1,245.7 million (December 31, 2010 - $1,150.1 million). The erection of the main structure is substantially complete. The project is approximately three months behind schedule from the first contractual tranche delivery date. The potential cost expected to be realized in the form of free rent for the late delivery of these tranches has been included in the budgeted soft costs. The $21.6 million contingency for the project would be available for any additional delay costs.

The REIT is expecting to incur approximately $301.0 million of the Bow's development costs over the next twelve months. See "Liquidity and Capital Resources" for the budget breakdown and the anticipated sources of funds.

Accrued Rent Receivable

Certain leases call for rental payments that increase over the lease term. To comply with IFRS, 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 0.4% or $0.7 million from $156.9 million at December 31, 2010 to $157.6 million at March 31, 2011 with a corresponding increase to rentals.

Other Assets (in thousands of Canadian dollars)	**March 31, 2011**	December 31, 2010
Restricted cash	**$11,482**	$19,106
Accounts receivable	**9,146**	7,420
Prepaid expenses and sundry assets	**10,102**	6,932
Derivative instruments	**1,690**	1,225
Other Assets	**$32,420**	$34,683

Restricted cash decreased from $19.1 million at December 31, 2010 to $11.5 million at March 31, 2011 due primarily to a decrease in funds being held in escrow relating to rent paid in advance.

Prepaid expenses and sundry assets have increased from $6.9 million at December 31, 2010 to $10.1 million at March 31, 2011 primarily due to an increase in prepaid realty taxes.

In May 2010, the REIT entered into monthly future foreign exchange forward contracts. The fair value increased from $1.2 million at December 31, 2010 to $1.7 million at March 31, 2011.

Cash and cash equivalents

Cash and cash equivalents increased to $41.3 million at March 31, 2011 from $10.7 million at December 31, 2010 primarily due to the issuance of series D senior debentures.

LIABILITIES

The REIT's Declaration of Trust limits the indebtedness of the REIT (subject to certain exceptions) to a maximum of 65% of the GBV of the REIT.

	March 31, 2011	December 31, 2010
Total debt to GBV per the REIT's Declaration of Trust[1]	**47.6%**	47.2%
Total debt to GBV of the combined financial statements	**57.1%**	56.5%
Non-recourse debt as a percentage of total debt	**35.7%**	38.4%
Floating rate debt as a percentage of total debt	**1.6%**	2.4%
Canadian properties total debt to GBV	**56.2%**	54.7%
U.S. properties total debt to GBV	**61.3%**	64.3%

(1) Total debt per the REIT's Declaration of Trust excludes all convertible debentures and the U.S. Holdco Notes payable to Finance Trust. The REIT's calculation of total debt to GBV is not recognized under IFRS and therefore does not have a standardized meaning prescribed by IFRS.

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

Opening balance - December 31, 2010	$2,706,707
Principal payments	(25,042)
Mortgage repaid upon maturity	(4,469)
New mortgages	6,642
Mortgages payable released upon lender taking title to properties	(37,197)
Foreign exchange difference	(16,429)
Closing balance - March 31, 2011	**$2,630,212**

The mortgages bear interest at a weighted average rate of 6.2% (December 31, 2010 – 6.2%) and mature between 2011 and 2035. The weighted average term to maturity of the REIT's mortgages is 7.8 years (December 31, 2010 - 8.2 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 upon maturity. Of the total mortgages (excluding mortgages due on demand), 5.4% will mature in 2011 and 13.9% will mature in 2012. The mortgages coming due before the end of 2011 bear interest at a weighted average rate on maturity of 6.4% while mortgages coming due during 2012 bear interest at a weighted average rate on maturity of 6.7%. 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 Canadian dollars)	**March 31, 2011**	December 31, 2010
Mortgages payable - Canada	**$1,868,157**	$1,890,881
Mortgages payable - United States	**762,055**	815,826
Total	**$2,630,212**	$2,706,707

Debentures Payable

						March 31, 2011	December 31, 2011
	Maturity	Contractual Interest Rate	Effective Interest Rate	Conversion Price	Face Value (in millions)	**Carrying Value (in millions)**	Carrying Value (in millions)
Convertible Debentures							
2013 Convertible Debentures	Jun 30, 2013	6.65%	6.65%	$23.11	$115.0	**$121.2**	$121.3
2014 Convertible Debentures	Dec 31, 2014	6.75%	6.75%	14.00	136.4	**213.5**	203.0
2017 Convertible Debentures	Jun 30, 2017	6.00%	6.00%	19.00	170.7	**201.4**	188.1
2020 Convertible Debentures	Jun 30, 2020	5.90%	5.90%	23.50	100.0	**105.2**	102.6
					522.1	**641.3**	615.0
Senior Debentures							
Series A Senior Debentures	Feb 3, 2015	5.20%	5.40%	n/a	115.0	**114.2**	114.1
Series B Senior Debentures	Feb 3, 2017	5.90%	6.06%	n/a	115.0	**114.1**	114.1
Series C Senior Debentures	Dec 1, 2018	5.00%	5.30%	n/a	125.0	**122.6**	122.6
Series D Senior Debentures	Jun 27, 2016	4.78%	4.96%	n/a	180.0	**178.5**	-
					535.0	**529.4**	**350.8**
Total					$1,057.1	**$1,170.7**	**$965.8**

Debentures payable increased by $204.9 million to $1.17 billion at March 31, 2011 from $965.8 million at December 31, 2010. Convertible debentures increased by $26.3 million mainly due to the increase in fair value of the 2014 and 2017 debentures. The senior debentures increased by $178.6 million mainly due to the issuance of the series D senior debentures bearing interest at the annual contractual rate of 4.78% and an effective interest rate of 4.96%. The series D senior debentures mature on June 26, 2016 and interest is paid semi-annually on January 27 and July 27 in each year commencing July 27, 2011. On issuance, the REIT recorded a liability of $178.5 million, net of issue costs of $1.5 million.

Derivative Instruments

Derivative instruments represented the fair value of the interest rate swap on the Bow construction facility. At March 31, 2011, the fair value of the interest rate swap on the Bow construction facility was a liability of $2,452 (December 31, 2010 - liability of $2,897).

The REIT also entered into an interest rate swap on one mortgage. The fair value of this interest rate swap as at March 31, 2011 is a liability of $310 (December 31, 2010 - liability of $420).

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased by $3.8 million from $170.5 million at December 31, 2010 to $174.3 million at March 31, 2011. Other payables and accruals increased as a result of transactions occurring in the normal course of business operations including an increase of $8.0 million due to increased interest accrued on all of the debentures. Also, the amount included in accrued liabilities relating to interest accrued to date on the non-recourse mortgages under default decreased by $4.5 million from $8.1 million at December 31, 2010 to $3.6 million at March 31, 2011 due to the lenders of four bankrupt properties taking title during the first quarter of 2011.

USE OF PROCEEDS FROM FINANCING ISSUED DURING Q1 2011

Financing	Disclosed Use of Proceeds	Actual Use of Proceeds
Public offering of $180 million of unsecured senior debentures on January 27, 2011.	To fund future property acquisitions, including to the extent necessary, Atrium on Bay and for general trust purposes.	The entire net proceeds were used to fund the Bow and for general trust purposes.

EQUITY

Unitholders' Equity

Unitholders' equity decreased by $42.6 million between December 31, 2010 and March 31, 2011. The decrease is primarily due to a net loss and distributions paid to unitholders during the three months ended March 31, 2011, partially offset by proceeds from issuance of Stapled Units and conversion of convertible debentures.

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.

FUNDS FROM OPERATIONS

Although funds from operations ("FFO") is widely used by the real estate industry as a measure of operating performance, the Trusts' method of calculating FFO may differ when comparing to other issuers. The Trusts present its FFO calculations in accordance with the Real Estate Property Association of Canada (REALPAC) for the purpose of improving the understanding of operating results of the Trusts by the investing public. FFO is a non-IFRS measure which should not be used as an alternative to comprehensive income, or cash flow from operations.

	Three months ended March 31	
(in thousands of Canadian dollars except per unit amounts)	**2011**	2010
Net loss	**($31,314)**	($57,092)
Add (deduct)		
Loss on change in fair value	**56,920**	29,598
Amortization and impairment expense	**44,317**	39,236
Gain on sale of income properties	**-**	(3,633)
Net loss on foreign exchange	**2,199**	3,560
Deferred income tax expense	**-**	4,098
FFO	**$72,122**	$15,767
Weighted average number of Stapled Units (in thousands of Stapled Units adjusted for conversion of non-controlling interest)	**151,871**	149,309
Diluted weighted average number of Stapled Units (in thousands of Stapled Units) for the calculation of FFO[(1)(2)]	**181,017**	149,772
Funds from operations per Stapled Unit (basic – adjusted for conversion of non-controlling interest)	**0.47**	0.11
Funds from operations per Stapled Unit (diluted)	**0.44**	0.11

(1) For the three months ended March 31, 2011 and 2010, 538,244 Stapled Units and 463,465 Stapled Units, respectively, are included in the determination of diluted FFO with respect to the Unit Option Plan.

(2) The 2013, 2014, 2017 and 2020 Convertible Debentures are dilutive for the three months ended March 31, 2011. Debenture interest of $8.3 million (March 31, 2010 - nil) is added to FFO for the three months ended March 31, 2011 and 28,607,923 (March 31, 2010 - nil) Stapled Units are included in the diluted weighted average number of Stapled Units outstanding for this period.

The primary reasons for the increase of $56.4 million in FFO between Q1 2011 and Q1 2010 are:

- an increase of $53.6 million from the change in gain (loss) on extinguishment of debt;
- an increase of $3.1 million in property operating income due to acquisitions in 2010 and for the first three months of 2011;
- a decrease of $1.6 million in property operating income due to straight-lining of contractual rent. See same-asset straight-lining of contractual rent on page 12 for further details;
- a decrease in property operating income of $0.3 million due to terminated leases from U.S bankruptcies
- a decrease of $0.6 million due to lower same-asset current rentals. See same-asset current rentals on page 12 for further details;
- an increase of $1.2 million due to lower same-asset property operating costs. See same-asset property operating costs on page 13 for further details;
- a decrease of $0.9 million due to lower finance income;
- an increase of $2.9 million due to lower finance costs; and

- a decrease of $1.1 million due to higher trust expenses.

The following table below provides a reconciliation of FFO previously reported under Canadian GAAP to the FFO currently reported under IFRS for the three months ended March 31, 2010:

	March 31 2010
FFO previously reported	$13,546
IFRS adjustments resulting from the re-stated March 31, 2010 income statement:	
Change in rent amortization	949
Change in straight-lining of contractual rent	175
Change in effective interest rate accretion	2,102
Class B LP Units' distributions reclassified as finance costs	(979)
Change in trust expenses	(1,075)
Change in net loss on foreign exchange	(32)
Net loss on foreign exchange	3,560
Mortgage interest accruals on non-recourse mortgages	(2,410)
Unrealized gain on derivative option	(69)
Revised FFO	$15,767

ADJUSTED FUNDS FROM OPERATIONS

Although adjusted funds from operations ("AFFO") is a common measure in the real estate industry, the Trusts' method of calculating AFFO may differ to that of other issuers. Management views AFFO as an alternate measure to cash generated from operations. AFFO is calculated by adjusting FFO for non-cash items such as: straight-lining of contractual rent, rent amortization of tenant inducements, effective interest rate accretion, unit-based compensation and mortgage interest accruals on non-recourse mortgage defaults which is a non-cash item that will become a (gain) loss on extinguishment of debt, once the lender of the bankrupt properties takes title. Non-recurring costs that impact operating cash flow may be adjusted and capital and tenant expenditures incurred by the Trusts and capitalized to the balance sheet are deducted from AFFO. Interest on Class B LP Units was previously treated as distributions under Canadian GAAP, however under IFRS, they are treated as finance costs and have therefore been added back to AFFO.

	Three months ended March 31	
(in thousands of Canadian dollars except per unit amounts)	**2011**	2010
Funds from operations	**$72,122**	$15,767
Add (deduct)		
Straight-lining of contractual rent	**(837)**	(2,105)
Rent amortization of tenant inducements	**237**	221
Effective interest rate accretion	**395**	461
Mortgage interest accruals on non-recourse mortgage defaults	**1,018**	2,410
Class B LP Units' finance costs	**1,223**	979
(Gain) loss on extinguishment of debt	**(14,785)**	38,834
Unit-based compensation	**2,794**	1,372
Capital expenditures	**(989)**	(5,484)
Tenant expenditures	**(4,624)**	(1,395)
AFFO	**$56,554**	$51,060
Weighted average number of Stapled Units (in thousands of Stapled Units adjusted for conversion of non-controlling interest)	**151,871**	149,309
Diluted weighted average number of Stapled Units (in thousands of Stapled Units) for the calculation of AFFO(1)(2)(3)	**176,041**	169,697
AFFO per Stapled Unit (basic - adjusted for conversion of non-controlling interest)	**0.37**	0.34
AFFO per Stapled Unit (diluted)	**0.36**	0.33
Distributions per Stapled Unit	**0.23**	0.18
Payout ratio (as a percentage of AFFO)	**62.2%**	52.9%

(1) For the three months ended March 31, 2011 and 2010, 538,244 Stapled Units and 463,435 Stapled Units, respectively, are included in the determination of diluted AFFO with respect to the Unit Option Plan.

(2) The 2014, 2017 and 2020 Convertible Debentures are dilutive for the three months ended March 31, 2011. Debenture interest of $6.4 million is added to AFFO for the three months ended March 31, 2011 and 23,631,722 Stapled Units are included in the dilutive weighted average number of Stapled Units outstanding for this period.

(3) The 2014 and 2017 Convertible Debentures are dilutive for the three months ended March 31, 2010. Debenture interest of $5.1 million is added to AFFO for the three months ended March 31, 2010 and 19,924,320 Stapled Units are included in the dilutive weighted average number of Stapled Units outstanding for this period.

The primary reasons for the increase of $5.5 million in AFFO between Q1 2011 and Q1 2010 are:

- an increase in property operating income of $2.8 million due to acquisitions in 2010 and the first three months of 2011;
- a decrease in property operating income of $0.3 million due to terminated leases from U.S. bankruptcies;
- a decrease of $0.6 million due to lower same-asset current rentals. See same-asset current rentals on page 12 for further details;
- an increase of $1.2 million due to lower same-asset property operating costs. See same-asset property operating costs on page 13 for further details;
- a decrease of $0.9 million due to lower finance income;
- an increase of $1.7 million due to lower finance costs;
- an increase of $0.3 million due to lower trust expenses;
- an increase of $4.5 million due to a decrease in capital expenditures; and
- a decrease of $3.2 million due to an increase in tenant expenditures.

The following table below provides a reconciliation of AFFO previously reported on under Canadian GAAP to the AFFO currently reported under IFRS for the three months ended March 31, 2010:

	March 31 2010
AFFO as previously reported	$12,226
Loss on repayment of convertible debentures	38,834
Revised AFFO	$51,060

The following is a reconciliation of the Trusts' AFFO to cash provided by operations.

	Three months ended March 31	
(in thousands of Canadian dollars)	**2011**	2010
Adjusted funds from operations	**$56,554**	$51,060
Straight-lining of contractual rent	**837**	2,105
Mortgage interest accruals on non-recourse mortgage defaults	**(1,018)**	(2,410)
Class B LP Units' finance costs	**(1,223)**	(979)
Additions to capital expenditures and tenant expenditures	**5,613**	6,879
Change in other non-cash operating items	**4,764**	6,019
Realized loss on foreign exchange	**(1)**	(2)
Cash provided by operations	**$65,526**	$62,672

LIQUIDITY AND CAPITAL RESOURCES

Cash Distributions

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

(in thousands of Canadian dollars)	**Three months ended March 31, 2011**	Year ended December 31, 2010	Year ended December 31, 2009
Cash provided by operating activities	**$65,526**	$239,877	$238,941
Net income (loss)	**(31,314)**	496,600	86,525
Actual cash distributions paid or payable relating to the period	**26,240**	99,426	97,726
Excess of cash provided by operating activities over cash distributions paid	**39,286**	140,451	141,215
Excess (shortfall) of net earnings over cash distributions paid	**(57,554)**	397,174	(11,201)

(1) 2009 figures are based on Canadian GAAP, prior to changeover to IFRS. The 2010 and 2011 figures are based on IFRS.

For the three months ended March 31, 2011 and years ended December 31, 2010 and 2009, cash provided by operating activities exceeded cash distributions. Management expects this trend to continue. Cash distributions exceeded net income for the three months ended March 31, 2011 due to the loss on change in fair value and other non-cash items which are deducted from net earnings. Net income exceeded cash distributions paid for the years ended December 31, 2010 and December 31, 2009. Non-cash items such as impairment losses, gain on extinguishment of debt, deferred income tax recoveries, unrealized gains or losses, depreciation and amortization, while deducted from or added to net income have no impact on cash available to pay current distributions.

Capital Resources

Subject to market conditions, management expects to be able to meet all of the REIT's 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 REIT's cash flow from operations. As at March 31, 2011, the REIT is not in default or arrears on any of its obligations including interest or principal payments on debt and any debt covenant with the exception of the non payment of principal and interest for one Boscov's Department Store and the two Great Atlantic and Pacific Tea Company mortgages following the Chapter 11 filings of those tenants. The REIT's subsidiaries have handed over control of these properties to the respective mortgage companies and is waiting for those companies to legally release the REIT's subsidiaries from their debt obligations.

The REIT's general operating facility has been provided by the same chartered bank since the REIT's inception. This general operating facility expires on December 31, 2012 and is secured by certain income properties. At March 31, 2011, approximately $246.2 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 assets held for sale and mortgages payable on demand) including payments due as at March 31, 2011 for the next 5 years and thereafter:

	Payments Due by Period				
Contractual Obligations (in thousands of Canadian dollars)	2011	2012-2013	2014-2015	2016 and thereafter	Total
Mortgages payable	140,808	564,984	597,465	1,291,771	2,595,028
2013 Convertible debentures	-	115,000	-	-	115,000
2014 Convertible debentures	-	-	136,436	-	136,436
2017 Convertible debentures	-	-	-	170,636	170,636
2020 Convertible debentures	-	-	-	100,000	100,000
Series A Senior Debentures	-	-	115,000	-	115,000
Series B Senior Debentures	-	-	-	115,000	115,000
Series C Senior Debentures	-	-	-	125,000	125,000
Series D Senior Debentures	-	-	-	180,000	180,000
Bank indebtedness	-	63,668	-	-	63,668
Property acquisitions(1)	180,400	-	-	-	180,400
Total Contractual Obligations	$321,208	$743,652	$848,901	$1,982,407	$3,896,168

(1) The total purchase price is approximately $422.9 million less the mortgage assumptions of $242.5 million.

DBRS Limited ("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 the REIT has a credit rating of BBB with a Stable trend as at March 31, 2011. 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 Canadian dollars)	Costs incurred to date	Remaining Costs	Budget
Land	$60,804	$ -	$60,804
Financing costs	23,128	18,593	41,721
Capitalized interest on the REIT's costs as incurred	137,698	78,024	215,722
Soft costs	139,634	53,010	192,644
Hard costs	932,007	199,204	1,131,211
Recoveries and other income	(47,563)	(69,374)	(116,937)
Contingency	-	21,557	21,557
Cost incurred to date/remaining costs/budget	1,245,708	301,014	1,546,722
Less capitalized interest on the REIT's costs incurred	(137,698)	(78,024)	(215,722)
Total costs incurred to date/ remaining costs/budget less capitalized interest	$1,108,010	$222,990	$1,331,000

Both the REIT and the lenders' project consultant believe the remaining contingencies to be sufficient at this stage of the project. Based on the current anticipated tranche completion dates, it is expected that there will be an approximate one to three month delay

in delivery for each tranche. This potential cost is included in the budgeted soft costs. In light of the expected delay, certain subcontractors may look for additional billings for cost overruns, which should be covered by the contingency. Revenue of approximately $37 million to be earned during the construction period will be recognized in revenue for IFRS purposes, and will not be netted against actual costs incurred during the project as the above table shows.

The REIT believes that as at March 31, 2011, through the amount undrawn under the construction facility of $366.0 million and the available cash and undrawn credit facility of $246.2 million, it has enough funds to complete the Bow.

The REIT's capacity to fund future acquisitions, capital expenditures and commitments was in excess of $3.35 billion as at March 31, 2011. This represents the amount by which the REIT can increase its debt, subject to market availability, before the REIT reaches its maximum debt limitation of 65% of debt to its GBV of assets under the Declaration of Trust.

The following summarizes term debt maturities for existing mortgages:

Year	Mortgage Debt due on Maturity ($000's)	Number of Properties	2011 Estimated Property Operating Income ($000's)(1)	Loan to Value(2)
2011	$65,777	9	$16,223	29%
2012	262,275	21	47,948	40%
2013	107,604	10	23,020	34%
2014	182,632	8	26,910	49%
2015	206,264(3)	21	27,297	55%
	$824,552	69	$141,398	42%

(1) Converting U.S. dollars to Canadian dollars at an exchange rate of $0.97.
(2) Using a 7.25% capitalization rate
(3) Excludes $18 million vendor takeback mortgage on land held for development.

Based on the low percentage of the projected loan to values of the maturing mortgages, the REIT is confident it will be able to replace these mortgages as they mature.

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, 2011, such guarantees amounted to $40.8 million (December 31, 2010 - $41.3 million), expiring between 2011 and 2016 and no amount has been provided for in the condensed interim combined financial statements of the Trusts 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, 2011, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk is approximately $115.6 million (December 31, 2010 - $116.4 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 condensed interim combined financial statements.

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. The support services relating to dispositions of investment

properties are provided for a fee of 10% of the gain on sale of investment properties adjusted for the add back of accumulated depreciation and amortization. Services are provided by the Property Manager pursuant to a property management agreement which expires on January 1, 2015 with one automatic five-year extension.

During the three months ended March 31, 2011, the REIT recorded fees pursuant to this agreement of $3.5 million (March 31, 2010 - $3.7 million), of which $0.2 million (March 31, 2010 - $0.4 million) was capitalized to the cost of the investment properties acquired, $0.4 million (March 31, 2010 - $0.4 million) was capitalized to properties under development and $2.7 million (March 31, 2010 - $0.5 million was capitalized to leasing expenses. The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the three months ended March 31, 2011, a further amount of $0.6 million (March 31, 2010 - $0.6 million) has been earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager. In 2010, the Property Manager waived payment of the annual incentive fee.

Pursuant to the above agreement, as at March 31, 2011, $1.4 million (December 31, 2010 - $1.7 million) was payable to the Property Manager.

The REIT leases space to companies affiliated with the Property Manager. The rental income earned for the three months ended March 31, 2011 is $0.3 million (March 31, 2010 - $0.3 million).

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Where appropriate, the REIT uses forward contracts to lock in lending rates on certain anticipated mortgages. This strategy provides certainty to 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, 2011, the REIT had no such forward contracts in place.

Where appropriate, the REIT 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. The REIT has entered into a forward exchange contract with a Canadian chartered bank, which effectively locks in the REIT's rate to exchange, U.S. $2 million per month at a rate of 1.0402. This forward exchange contract expires in April 2012.

The REIT has entered into interest rate swaps on the Bow credit facility and on one U.S. mortgage which effectively locked the interest rate at 4.65% and 5.25%, respectively. At the end of each reporting period, the interest rate swaps are marked-to-market resulting in an unrealized gain or loss recorded in comprehensive income.

SECTION III

SUMMARY OF QUARTERLY RESULTS

(unaudited) (in thousands of Canadian dollars)	**March 31, 2011**	December 31, 2010	September 30, 2010	June 30, 2010
Rentals from investment properties	**$153,294**	$160,700	$152,778	$151,369
Finance income	**366**	265	248	802
Net earnings (loss)	**(31,314)**	60,648	(12,107)	505,151
Total comprehensive income (loss)	**(34,352)**	55,787	(15,068)	509,619

	March 31, 2010	December 31, 2009[1]	September 30, 2009[1]	June 30, 2009[1]
Rentals from investment properties	$152,580	$151,668	$148,206	$148,999
Finance income	1,274	1,621	1,602	1,504
Net earnings(loss)	(57,092)	$29,870	$15,656	$18,901
Total comprehensive income (loss)	(59,900)	31,678	7,239	9,789

(1) 2009 figures are based on Canadian GAAP prior to changeover to IFRS. The 2010 and 2011 figures and onwards are based on IFRS.

Changes to the quarterly financial information are not reflective of seasonality or cyclicality but generally from new property acquisitions, dispositions and income taxes. Revenues may have significant fluctuations due to recoveries from tenants for changes to property operating costs depending on when major maintenance projects are incurred.

SECTION IV

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Trusts' 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. The Trusts' combined financial statements have been prepared in accordance with IFRS.

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 March 31, 2011 consolidated financial statements of the REIT.

Leases

The REIT's policy for property rental revenue recognition is described in note 2(g) of the financial statements. The REIT makes judgements in determining whether certain leases, in particular those tenant leases with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases where the REIT is lessor, are operating or finance leases. The REIT has determined that all of its leases are operating leases.

Impairment of Assets

The REIT is required to assess an asset for impairment when its carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses are recognized in profit or loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if an impairment loss had not been recognized.

Depreciation of Investment Properties

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Land is not amortized. Depreciation and amortization methods, useful lives and residual values are reviewed at each annual reporting date and adjusted as appropriate. Buildings are depreciated on a straight-line basis over their useful lives for a period of approximately 40 years. Building improvements are depreciated over their useful lives, which typically vary between 5 and 20 years. Improvements that do not meet the capitalization criteria are expensed in full in the period incurred. Paving and equipment are depreciated on a straight-line basis over their useful lives, which is typically 10 years. Intangibles resulting from in-place leases and above- and below-market leases are amortized over the related lease terms.

Property Acquisitions

Investment properties include commercial properties held to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. Investment property is measured at cost less accumulated depreciation and impairment losses.

The cost of replacing a major component of a building is recognized in the carrying amount of the building if it is probable that the future economic benefits embodied within the component will flow to the REIT, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized at the time of replacement through the statement of comprehensive income.

Upon acquisition, the REIT performs an assessment of investment properties being acquired to determine whether the acquisition is to be accounted for as an asset acquisition or a business combination. A transaction is considered to be a business combination if the acquired property meets the definition of a business, being an integrated set of activities and assets that are capable of being managed for the purpose of providing a return to the unitholders.

Whether the acquisition is accounted for as an asset acquisition or a business combination, the REIT fair values the assets and liabilities including land, building and intangibles such as above- and below-market leases, in-place operating leases and customer relationship value. The REIT expenses transaction costs on business combinations.

The REIT has elected to apply the fair value method as deemed cost for certain properties as at January 1, 2010 and the cost model for subsequent accounting for its investment properties. The carrying values of these selected properties were adjusted to their fair value at the transition date. Significant judgments and estimates have been made by the REIT in order to fair value these properties.

Income Tax

During the second quarter of 2010, the REIT completed necessary restructuring to qualify for the REIT Exemption whereby defined as the new taxation regime under SIFT rules that will not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its income and investments throughout the taxation year, commencing January 1, 2011. The REIT will not be subject to the SIFT Rules provided that the REIT qualifies for the REIT Exemption at all times after 2010. See the "Tax Risk" section for further discussion. Accordingly, the net deferred income tax liability of $465.2 million recorded as at March 31, 2010, was reversed into net income as at June 30, 2010.

Prior to the SIFT Rules, income earned by the REIT and distributed annually to unitholders was not, and would not be, subject to taxation in the REIT, but was taxed at the unitholder level. For financial statement reporting purposes, the tax deductibility of the REIT's distributions was treated as an exemption from taxation as the REIT distributed and intended to continue distributing all of its income to its unitholders. Accordingly, prior to the SIFT Rules, the REIT did not record a provision for income taxes, or future income tax assets or liabilities, in respect of the REIT or its investments in its subsidiary trusts.

Deferred income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred 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 deferred income tax assets and liabilities of a change in tax rate is recognized in income or unitholders' equity, as appropriate, in the period that includes the date of enactment or substantive enactment.

DISCLOSURE CONTROLS AND PROCEDURES

The Trust's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their direct supervision, the Trusts' DCP (as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("N1152-109"), adopted by the Canadian Securities Administrators) to provide reasonable assurance that: (i) material information relating to the Trusts, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the interim filings are being prepared; and (ii) material information required to be disclosed in the interim filings is recorded, processed, summarized and reported on a timely basis. The financial statements and MD&A were reviewed and approved by the Audit Committees and the Boards of Trustees prior to this publication.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management reviewed its internal control over financial reporting due to the conversion from Canadian GAAP to IFRS. The most significant change to the Trusts' control environment is the disclosure of the fair value of investment properties in the notes to the financial statements. Management has implemented controls and processes to ensure that accurate fair values can be determined. Other than Canadian GAAP to IFRS, no changes were made to the design of the Trusts' internal control over financial reporting during the three months ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Trusts' internal control over financial reporting

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

SECTION V

RISKS AND UNCERTAINTIES

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

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. Once the Bow is completed, EnCana Corporation is also expected to account for more than 5% of the rentals from income properties. EnCana Corporation's current public debt rating is A low.

Lease Rollover Risk

Lease rollover risk arises from the possibility that the REIT may experience difficulty renewing leases as they expire. Management attempts to enter into long-term leases to mitigate this risk. Only 16.2% of the total leasable area will expire in the next 5 years.

Interest and Financing Risk

In the low interest rate environment that the Canadian economy has experienced in recent years, leverage has enabled the REIT to enhance its return to unitholders. A reversal of this trend, however, can significantly affect the business's ability to meet its financial obligations. In order to minimize this risk, the REIT negotiates fixed rate term debt with staggered maturities on the portfolio and attempts to match average lease maturity to average debt maturity. Derivative financial instruments may be utilized by the REIT in the management of its interest rate exposure. In addition, the REIT Declaration of Trust restricts total indebtedness permitted on the portfolio.

Tax Risk

The REIT currently qualifies as a mutual fund trust for Canadian income tax purposes.

The Income Tax Act (Canada) contains legislation (the "SIFT Rules") affecting the tax treatment of "specified investment flow-through" ("SIFT") trusts. A SIFT includes a publicly-traded trust. The SIFT Rules provide for a transition period until 2011 for publicly-traded trusts like the REIT which existed prior to November 1, 2006. Under the SIFT Rules, distributions of certain income by a SIFT are not deductible in computing the SIFT's taxable income, and a SIFT is subject to tax on such income at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. The SIFT Rules do not apply to a publicly-traded trust that qualifies as a real estate investment trust under the Income Tax Act (Canada). The REIT completed the necessary tax restructuring to qualify as a real estate investment trust effective June 30, 2010. For periods before it qualified, the REIT recorded deferred tax liabilities in respect of temporary differences expected to reverse after January 1, 2011. Such deferred tax liability was reversed as an adjustment to deferred income tax expense in income and as an adjustment to other comprehensive income during the second quarter of 2010, when the REIT became a qualifying REIT.

Management of the REIT intends to conduct the affairs of the REIT so that it qualifies for the REIT Exemption at all times after 2010; however, as the requirements of the REIT Exemption include complex revenue and asset tests, no assurances can be provided that the REIT will in fact so qualify at any time.

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 HRLP. As at March 31, 2011, U.S. Holdco owed $120.3 million to Finance Trust and HRLP 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 U.S. 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). 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 IRS), 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. U.S. 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.

Environmental Risk

As an owner and manager of real property in Canada and the United States, the REIT is subject to various laws relating to environmental matters. These laws impose a liability for the cost of removal and remediation of certain hazardous materials released or deposited on properties owned by the REIT on or adjacent properties.

As required by the REIT's Declaration of Trust and in accordance with best management practices, Phase 1 audits are completed on all properties prior to acquisition. Further investigation is conducted if Phase 1 tests indicate a potential problem. The REIT has operating policies to monitor and manage risk. In addition, the standard lease requires compliance with environmental laws and regulations and restricts tenants from carrying on environmentally hazardous activities or having environmentally hazardous substances on site.

Availability of Cash for Distributions

The REIT's current proposed distribution policy is outlined under "Outlook". 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 as previously outlined. Although the REIT intends to make distributions of its available cash to unitholders in accordance with its distribution policy, these cash distributions may be reduced or suspended. The actual amount distributed by the REIT will depend on numerous factors including monthly cash distributions paid by Finance Trust, capital market conditions, the financial performance of the properties, the REIT's debt covenants and obligations, its working capital requirements, its future capital requirements, its development commitments and fluctuations in interest rates. 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, capital expenditures or any other business needs that the Trustees deem reasonable. 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 trustees retain the right to re-evaluate the distribution policy from time to time as they consider appropriate.

Development and Financing Risk Relating to the Bow Development

The REIT entered into agreements to develop the Bow an approximately 2.0 million square foot office and retail complex in Calgary. The Bow, budgeted to cost approximately $1.5 billion (including capitalized interest and rent to be received during the construction period), is pre-leased, on a triple net basis, 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 94% of the hard cost budget. Together with costs incurred to date, the REIT has effectively locked in approximately 99% 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 4.65%.

The REIT secured a $425 million construction facility during April 2009. The REIT is in compliance with all covenants and conditions of the construction facility agreement for the three months ended March 31, 2011 and year ended December 31, 2010. As at March 31, 2011, $59.0 million has been drawn on this facility. Please see note 12(b) of the March 31, 2011 unaudited condensed interim combined financial statements for further information.

Construction Risks

It is likely that, subject to compliance with the REIT's 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, 2014, 2017 and 2020 convertible debentures and the Series A, B, C and D senior debentures 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 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.

OUTSTANDING UNIT DATA

The beneficial interests in the Trusts are represented by a single class of Stapled Units which are unlimited in number. Each unit carries a single vote at any meeting of unitholders. As at June 9, 2011, there were 156,716,993 Stapled Units issued and outstanding.

As at March 31, 2011, the maximum number of Stapled Units authorized to be granted under the REIT's Unit Option Plan was 8,800,000. Of this amount, 8,150,000 had been granted and 6,056,334 had been exercised. As at June 9, 2011, there were 2,026,998 options to purchase Stapled Units outstanding of which 710,332 are fully vested.

The following table lists the principal outstanding balance of the REIT's convertible debentures as at June 9, 2011 and the number of Stapled Units required to convert the convertible debentures to equity:

Convertible Debentures	Principal outstanding as at June 9, 2011	Maximum number of Stapled Units issuable
2013 6.65% Debentures	$115.0 million	4,976,201
2014 6.75% Debentures	135.3 million	9,664,786
2017 6.00% Debentures	170.6 million	8,976,789
2020 5.90% Debentures	100.0 million	4,254,894

SUBSEQUENT EVENTS

(a) In May 2011, the REIT purchased an 80,000 square foot office property in Lithia Springs, Georgia for a purchase price of U.S. $60.8 million. A mortgage payable of U.S. $54.7 million was assumed on closing, maturing in 2031.

(b) In May 2011, the REIT purchased two industrial properties in Saint John, New Brunswick and Boucherville, Quebec for a purchase price of $19.8 million.

(c) In May 2011, the REIT and Finance Trust completed a public offering, issuing 9,030,000 Stapled Units for gross proceeds of approximately $200 million.

(d) In June 2011, the REIT purchased 595 Bay Street, 20 and 40 Dundas Street, West and 306 York Street, which are collectively known as "Atrium on Bay" in Toronto, Ontario for a purchase price of $344.8 million. The REIT assumed a $190 million mortgage maturing in 2017.

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.