Unaudited Condensed Combined Interim Financial Statements of

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

For the three months ended March 31, 2012 and 2011

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

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

	March 31 2012 (Unaudited)	December 31 2011
Assets		
Real estate assets		
Investment properties (note 3)	**$ 5,902,829**	$ 5,794,499
Properties under development (note 4)	**1,688,025**	1,617,057
Accrued rent receivable	**156,441**	156,503
	7,747,295	7,568,059
Mortgages and amount receivable	**7,000**	7,080
Other assets (note 5)	**31,534**	49,053
Cash and cash equivalents (note 6)	**29,806**	13,609
	$ 7,815,635	$ 7,637,801
Liabilities and Unitholders' Equity		
Liabilities		
Mortgages payable (note 7)	**$ 3,436,066**	$ 3,163,593
Debentures payable (note 8)	**1,189,046**	1,370,917
Exchangeable units (note 9)	**128,653**	126,695
Unit options payable (note 10(a))	**10,170**	8,640
Derivative instruments (note 11)	**2,949**	6,072
Bank indebtedness (notes 12)	**374,700**	440,173
Accounts payable and accrued liabilities (note 13)	**166,350**	175,849
	5,307,934	5,291,939
Unitholders' equity	**2,507,701**	2,345,862
Commitments and contingencies (note 23)		
Subsequent events (note 24)		
	$ 7,815,635	$ 7,637,801

See accompanying notes to the unaudited condensed combined interim financial statements

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

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

	Three months ended March 31	
	2012	2011
Property operating income:		
Rentals from investment properties (notes 15 and 21)	**$ 186,286**	$ 153,294
Property operating costs	**(61,089)**	(48,868)
	125,197	104,426
Finance costs:		
Finance income	**624**	366
Finance cost - operations (note 16)	**(52,064)**	(42,620)
Gain on extinguishment of debt (note 3)	**-**	14,785
Gain (loss) on change in fair value (note 17)	**4,642**	(56,920)
	(46,798)	(84,389)
Amortization and impairment (note 18)	**(52,179)**	(44,317)
Net loss on foreign exchange	**(5,105)**	(2,199)
Trust expenses	**(4,172)**	(4,770)
Net income (loss) before income taxes	**16,943**	(31,249)
Income tax expense (note 22)	**(187)**	(65)
Net income (loss)	**16,756**	(31,314)
Other comprehensive income (loss) (note 14):		
Unrealized loss on translation of U.S. denominated foreign operations	**(841)**	(3,134)
Transfer of realized loss on cash flow hedges to net income	**99**	96
	(742)	(3,038)
Total comprehensive income (loss) all attributable to unitholders	**$ 16,014**	$ (34,352)

See accompanying notes to the unaudited condensed combined interim financial statements.

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

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

UNITHOLDERS' EQUITY	Value of Units	Accumulated net income	Accumulated distributions	Accumulated other comprehensive income (loss) (note 14)	Total
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 10(b))	-	-	(32,956)	-	(32,956)
Conversion of convertible debentures, net	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
Proceeds from issuance of units	547,673	-	-	-	547,673
Issue cost	(22,443)	-	-	-	(22,443)
Net income	-	6,037	-	-	6,037
Distributions to unitholders	-	-	(117,295)	-	(117,295)
Conversion of convertible debentures, net	14,713	-	-	-	14,713
Other comprehensive income	-	-	-	5,634	5,634
Unitholders' equity, December 31, 2011	2,789,459	1,198,498	(1,635,275)	(6,820)	2,345,862
Proceeds from issuance of units	**15,802**	**-**	**-**	**-**	**15,802**
Net income	**-**	**16,756**	**-**	**-**	**16,756**
Distributions to unitholders (note 10(b))	**-**	**-**	**(48,002)**	**-**	**(48,002)**
Conversion of convertible debentures (note 8), net	**178,025**	**-**	**-**	**-**	**178,025**
Other comprehensive loss	**-**	**-**	**-**	**(742)**	**(742)**
Unitholders' equity, March 31, 2012	**$ 2,983,286**	**$ 1,215,254**	**$ (1,683,277)**	**$ (7,562)**	**$ 2,507,701**

See accompanying notes to the unaudited condensed combined interim financial statements.

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

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

	Three months ended March 31	
	2012	2011
Cash provided by (used in):		
Operations:		
Net income (loss)	**$ 16,756**	$ (31,314)
Items not affecting cash:		
Finance cost - operations (note 16)	**52,064**	42,620
Rent amortization of tenant inducements (note 15)	**366**	237
Unrealized loss on foreign exchange	**5,107**	2,198
Amortization and impairment (note 18)	**52,179**	44,317
Gain on extinguishment of debt (note 3)	**-**	(14,785)
(Gain) loss on change in fair values (note 17)	**(4,642)**	56,920
Unit-based compensation (note 10(a))	**2,237**	2,794
Change in other non-cash operating items (note 19)	**19,176**	(8,365)
	143,243	94,622
Investing:		
Properties under development	**(52,869)**	(91,184)
Investment properties:		
Acquisitions (note 3)	**(198,897)**	(26,600)
Capital expenditures (note 3)	**(1,103)**	(989)
Leasing expenses and tenant inducements (note 3)	**(1,102)**	(4,624)
Restricted cash	**10,739**	7,624
	(243,232)	(115,773)
Financing:		
Bank indebtedness	**(65,473)**	(25,377)
Interest paid	**(79,094)**	(44,568)
Mortgages payable:		
New mortgages payable	**428,971**	-
Principal repayments	**(133,816)**	(29,511)
Proceeds from issuance of debentures payable	**-**	177,019
Proceeds from issuance of units, net	**2,167**	1,602
Finance cost - exchangeable unit distributions (note 16)	**(1,495)**	(1,223)
Distributions to unitholders (note 10(b))	**(35,074)**	(26,240)
	116,186	51,702
Increase in cash and cash equivalents	**16,197**	30,551
Cash and cash equivalents, beginning of year (note 6)	**13,609**	10,730
Cash and cash equivalents, end of period (note 6)	**$ 29,806**	$ 41,281

Supplemental cash flow information (note 19)

See accompanying notes to the unaudited condensed combined interim financial statements.

These unaudited condensed combined interim financial statements include the accounts of H&R Real Estate Investment Trust (the "REIT") and H&R Finance Trust ("Finance Trust"). These unaudited condensed combined interim 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 each Trust participate pro rata in distributions of income and, in the event of termination of a Trust, participate pro rata in the net assets remaining after satisfaction of all liabilities of such Trust.

The unaudited condensed combined interim 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") listed under the symbol HR.UN. The units of each of the Trusts may only be transferred together as Stapled Units unless an event of "uncoupling" has occurred.

The presentation of unaudited condensed combined interim 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 unaudited condensed combined interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting.* Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

The unaudited condensed combined interim financial statements were approved by the Board of Trustees on May 15, 2012.

1. Basis of preparation (continued):

(b) Basis of measurement

The unaudited condensed combined interim financial statements have been prepared on the historical cost basis except for the following material items in the combined 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 at fair value through net income (loss).

(c) Functional currency and presentation

These unaudited condensed combined interim financial statements are presented in Canadian dollars, which is the Trusts' functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

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

(d) Use of estimates and judgements

The preparation of these unaudited condensed combined interim financial statements 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. Actual results may differ from these estimates.

(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:

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

1. Basis of preparation (continued):

(ii) Use of judgements

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

- Leases

  The REIT makes judgements in determining whether certain leases, in particular those tenant leases with long contractual terms and long-term ground leases where the REIT is the lessor, are operating or finance leases. The REIT has determined that all of its leases are operating leases.

- Income taxes

  The Trusts are each a mutual fund trust and H&R REIT is a real estate investment trust pursuant to the Income Tax Act (Canada) ("Tax Act"). Under current tax legislation, the Trusts are 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 Tax Act 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 pursuant to the Tax Act. The REIT expects to continue to qualify as a real estate investment trust; however, should it no longer qualify it would not be able to flow through its taxable income to unitholders and the REIT would be subject to tax.

- Investment property componentization

  The REIT makes judgements 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 capitalized to investment properties.

2. Significant accounting policies:

Except as described below, the accounting policies applied by the Trusts in these unaudited condensed combined interim financial statements are the same as these applied by the Trusts in its combined financial statements as at and for the year ended December 31, 2011.

2. Significant accounting policies (continued):

Change in accounting policies:

In May 2011, the International Accounting Standards Board issued IFRS 13, *Fair Value Measurement*. This new standard replaces the fair value measurement contained in individual IFRS with a single source of fair value measurement guidance. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and requires a fair value hierarchy to be applied to all fair value measurements and expands disclosure requirements for fair value measurements to provide information which allows users to assess the methods and inputs used to develop fair value measurements. The Trusts have early adopted this standard beginning January 1, 2012 on a prospective basis. The significant impact of this change will be to use, at the time of measurement, the quoted prices of financial instruments, if readily available, as compared to using the bid or ask prices which were used in the comparative period.

3. Investment properties:

	March 31 2012	December 31 2011
Opening balance, beginning of year	$ 5,794,499	$ 4,524,958
Acquisitions	198,897	1,443,290
Dispositions	-	(12,714)
Expenditures capitalized to building improvements	1,103	11,259
Additions to leasing expenses and tenant inducements	1,102	9,383
Depreciation and amortization expense	(51,645)	(178,745)
Impairment reversal	-	2,852
Impairment loss	(900)	(6,892)
Investment properties legal title transferred to lenders	-	(47,665)
Change in foreign exchange	(40,227)	48,773
Closing balance, end of period	$ 5,902,829	$ 5,794,499

March 31, 2012	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 1,071,538	$ -	$ 1,071,538
Building and improvements	4,393,519	(476,750)	3,916,769
Paving and equipment	118,055	(67,761)	50,294
Intangible assets	1,179,632	(255,793)	923,839
Below-market leases	(113,710)	26,129	(87,581)
Tenant inducements	15,186	(5,785)	9,401
Leasing expenses	31,555	(12,986)	18,569
	$ 6,695,775	$ (792,946)	$ 5,902,829

3. Investment properties (continued):

December 31, 2011	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 1,044,624	$ -	$ 1,044,624
Building and improvements	4,284,442	(451,150)	3,833,292
Paving and equipment	121,422	(67,873)	53,549
Intangible assets	1,163,894	(235,464)	928,430
Below-market leases	(119,665)	25,408	(94,257)
Tenant inducements	15,201	(5,420)	9,781
Leasing expenses	31,338	(12,258)	19,080
	$ 6,541,256	$ (746,757)	$ 5,794,499

Legal title to each of the properties in the United States 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 wholly owned subsidiary of the REIT. The assets of each such separate legal entity are not available to satisfy the debts or obligations of any other person or entity. Each such separate legal 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.

During the three months ended March 31, 2011 the lenders to four U.S. investment properties previously occupied by the bankrupt tenants Bruno's Supermarkets LLC and Boscov's Department Store accepted title to such respective 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 three months ended March 31, 2011. No such event occurred during the three months ended March 31, 2012.

3. Investment properties (continued):

Acquisitions:

During the three months ended March 31, 2012, the REIT acquired one investment property (December 31, 2011 - 11 investment properties). The results of operations for these acquisitions are included in these unaudited condensed combined interim financial statements from the date of acquisition.

The following table summarizes the fair value of the identifiable assets and liabilities as at the respective dates of acquisition:

	March 31 2012	December 31 2011
Assets		
Land	$ 33,560	$ 180,269
Building	137,487	1,031,952
Paving and equipment	-	2,782
Intangible assets - in-place lease costs	18,082	187,289
Intangible assets - above-market leases	2,939	33,695
Intangible assets - tenant renewal value	5,591	49,720
Intangible below-market leases	-	(42,793)
	197,659	1,442,914
Liabilities		
Mortgages payable, net of mark to market adjustments	-	319,753
Total identifiable net assets at fair value settled by cash	$ 197,659	$ 1,123,161

During the three months ended March 31, 2012, the REIT incurred additional costs of $1,238 in respect to 2011 acquisitions which are not included in the above table.

Fair value disclosure:

Investment properties are measured at cost less accumulated depreciation and impairment losses.

The estimated fair values of the REIT's investment properties (excluding properties under development) are as follows:

	Canada Fair Value	United States Fair Value	Total Fair Value	Net Book Value*
March 31, 2012	**$ 5,298,430**	**$ 2,171,850**	**$ 7,470,280**	**$ 6,059,270**
December 31, 2011	5,004,227	2,206,770	7,210,997	5,951,002

* Net book value includes investment properties and accrued rent receivable.

3. Investment properties (continued):

The estimated fair values of the REIT's investment properties are based on the following methods and key assumptions:

(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 fair value. The normalized net income for the year is divided by an overall capitalization rate; and

(iv) The use of external independent appraisers. As at March 31, 2012, 24.2% (December 31, 2011 - 38.9%) of the portfolio was valued by professional external independent appraisers. 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 includes the accrued rent receivable value of $156,441 (December 31, 2011 - $156,503) 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 estimating the fair value of the investment properties (excluding properties under development):

	Overall Capitalization Rate				Discount Rate			Terminal Capitalization Rate		
	Range	Canada	United States	Total	Canada	United States	Total	Canada	United States	Total
March 31, 2012	**5.75%-9.25%**	**6.39%**	**6.97%**	**6.55%**	**7.28%**	**7.70%**	**7.40%**	**6.71%**	**7.31%**	**6.88%**
December 31, 2011	5.75% -9.50%	6.55%	6.99%	6.68%	7.42%	7.72%	7.51%	6.90%	7.33%	7.03%

4. Properties under development:

			Fair Value		Net book Value	
			March 31	December 31	**March 31**	December 31
Project	**Address**		**2012**	2011	**2012**	2011
The Bow (note 23(a))	5th Ave. at Centre Street, Calgary, AB	(a)	**$ 1,685,028**	$ 1,586,145	**$ 1,549,543**	$ 1,479,117
Heart Lake	Mayfield West Business Park, Caledon, ON	(b)	**92,860**	92,860	**88,281**	87,954
Airport Road	7900 Airport Road, Brampton, ON	(b)	**50,995**	50,995	**50,201**	49,986
			$ 1,828,883	$ 1,730,000	**$ 1,688,025**	$ 1,617,057

(a) On March 16, 2012, the Bow was valued by a professional external independent appraiser at $1,795,000 on the assumption that the building was 100% complete. As at March 31, 2012, the costs to complete were $109,872.

(b) Valued at the estimated fair value per acre.

	March 31 2012	December 31 2011
Balance, beginning of period	**$ 1,617,057**	$ 1,268,331
Acquisitions	**-**	17,500
Development including capitalized interest	**70,968**	331,226
Balance, end of period	**$ 1,688,025**	$ 1,617,057

5. Other assets:

	March 31 2012	December 31 2011
Current:		
Restricted cash*	**$ 11,371**	$ 22,110
Accounts receivable	**9,408**	12,711
Prepaid expenses and sundry assets	**9,989**	12,959
Derivative instruments (note 11)	**766**	1,273
	$ 31,534	$ 49,053

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* Included in restricted cash are bank term deposits of $3,933 (December 31, 2011 - $8,395) at a rate of interest of 1.06% (December 31, 2011 - 0.90% to 1.03%).

6. Cash and cash equivalents:

Cash and cash equivalents at March 31, 2012 includes cash on hand of $29,554 (December 31, 2011 - $13,358) and bank term deposits of $252 (December 31, 2011 - $251) at a rate of interest of 0.84% (December 31, 2011 - 0.75%).

7. 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 5.70% (December 31, 2011 - 5.89%) per annum and maturing between 2012 and 2035. Included in mortgages payable at December 31, 2011 are U.S. dollar denominated mortgages of U.S. $1,349,440 (December 31, 2011 - U.S. $1,125,656). The Canadian equivalents of these amounts are $1,349,440 (December 31, 2011 - $1,148,169).

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 2012
Years ending December 31:	
2012*	$ 248,330
2013	224,048
2014	306,366
2015	359,326
2016	411,957
Thereafter	1,865,723
	3,415,750
Mortgages payable due on demand (net of financing costs of $149)**	20,270
Financing costs and mark-to-market adjustment arising on acquisitions	46
	$ 3,436,066

* For the balance of the year

** Relates to two non-recourse mortgages to the REIT for investment properties in which the tenant Great Atlantic and Pacific Tea Company has filed for protection under Chapter 11 of the United States Bankruptcy Code. The REIT expects to be released from any further obligations under these non-recourse mortgages upon the transfer of title to the lenders.

8. Debentures payable:

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

						March 31 2012	December 31 2011
	Maturity	Contractual interest rate	Effective interest rate	Conversion price	Face value	Carrying value	Carrying value
Convertible Debentures (a)							
2013 Convertible Debentures (HR.DB)	June 30, 2013	6.65%	6.65%	$ 23.11	$114,825	**$121,600**	$126,218
2014 Convertible Debentures (HR.DB.B)	December 31, 2014	6.75%	6.75%	14.00	23,246	**39,087**	214,393
2017 Convertible Debentures (HR.DB.C)	June 30, 2017	6.00%	6.00%	19.00	169,320	**212,530**	210,640
2020 Convertible Debentures (HR.DB.D)	June 30, 2020	5.90%	5.90%	23.50	99,990	**109,989**	112,989
2016 Convertible Debentures (HR.DB.E)	December 31, 2016	4.50%	4.50%	25.70	75,000	**76,995**	78,000
					482,381	**560,201**	742,240
Senior Debentures (b)							
Series A Senior Debentures	February 3, 2015	5.20%	5.40%	-	115,000	**114,375**	114,346
Series B Senior Debentures	February 3, 2017	5.90%	6.06%	-	115,000	**114,215**	114,204
Series C Senior Debentures	December 1, 2018	5.00%	5.30%	-	125,000	**122,919**	122,860
Series D Senior Debentures	July 27, 2016	4.78%	4.96%	-	180,000	**178,753**	178,718
Series E Senior Debentures	February 2, 2018	4.90%	5.22%	-	100,000	**98,583**	98,549
					635,000	**628,845**	628,677
					$1,117,381	**$1,189,046**	$1,370,917

The carrying value of the Convertible Debentures is determined using the quoted price on March 31, 2012 and December 31, 2011.

(a) *Convertible Debentures:*

The 2013, 2014, 2017, 2020 and 2016 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, D and E 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, the Series D senior debentures pay interest on January 27 and July 27 and the Series E senior debentures pay interest on February 2 and August 2.

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

8. Debentures payable (continued):

A summary of the carrying value of debentures payable is as follows:

	March 31 2012	December 31 2011
Convertible Debentures (note 8(a))		
Carrying value, beginning of year	**$ 742,240**	$ 614,988
Issued - 2016 Convertible Debentures	**-**	75,000
Conversion - 2013 Convertible Debentures*	**(81)**	(103)
Conversion - 2014 Convertible Debentures*	**(177,262)**	(26,436)
Conversion - 2017 Convertible Debentures*	**(682)**	(5,869)
Conversion - 2020 Convertible Debentures*	**-**	(10)
Gain (loss) on fair value (note 17)	**(4,014)**	84,670
Carrying value, end of year	**560,201**	742,240
Senior Debentures (note 8(b))		
Carrying value, beginning of year	**628,677**	350,840
Issued - Series D and E Senior Debentures	**-**	276,985
Accretion adjustment	**168**	852
Carrying value, end of year	**628,845**	628,677
	$ 1,189,046	$ 1,370,917

* The conversion amounts above equals $178,025 (December 31, 2011 - $32,418).

9. Exchangeable units:

Exchangeable units represents the Class B LP units of H&R Portfolio Limited Partnership ("HRLP") issued to participating vendors in exchange for properties acquired by HRLP. The accounts of HRLP are consolidated into the REIT, and thus included in the unaudited condensed combined interim financial statements. The Class B LP units are puttable instruments where the REIT has a contractual obligation to issue Stapled Units to participating vendors upon redemption. These puttable instruments are classified as a liability under IFRS and are measured at fair value through net income (loss). Fair value is determined by using the quoted prices for the listed Stapled Units as all of the 5,437,565 Class B LP units of HRLP are exchangeable on a one-for-one basis, at the option of the holder, into Stapled Units. The quoted price as at March 31, 2012 was $23.66 (December 31, 2011 - $23.30).

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.

9. Exchangeable units (continued):

As a result of a reorganization in 2009, HRLP, the REIT, Finance Trust and H&R Portfolio LP Trust (a subsidiary of the REIT) 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 quoted 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.

10. Unitholders' equity:

The following number of Stapled Units are issued and outstanding:

As at December 31, 2010	146,120,642
Issued under the Distribution Reinvestment Plan and Unit Purchase Plan (the "DRIP")	331,569
2014 Convertible Debentures converted into units	613,637
2017 Convertible Debentures converted into units	229,683
Options exercised	16,667
As at March 31, 2011	147,312,198
Issued under the DRIP	1,395,051
Issued on May 31, 2011 (at a price of $22.15 per unit)	9,030,000
Issued on November 22, 2011 (at a price of $22.00 per unit)	8,500,000
Issued on December 22, 2011 (at a price of $23.30 per unit)	5,370,000
2013 Convertible Debentures converted into units	4,327
2014 Convertible Debentures converted into units	607,237
2017 Convertible Debentures converted into units	40,257
2020 Convertible Debentures converted into units	425
Options exercised	294,502
As at December 31, 2011	172,553,997
Issued under the DRIP	**568,682**
2013 Convertible Debentures converted into units	**3,244**
2014 Convertible Debentures converted into units	**7,477,778**
2017 Convertible Debentures converted into units	**28,995**
Options exercised	**134,667**
As at March 31, 2012	**180,767,363**

The weighted average number of basic Stapled Units for the three months ended March 31, 2012 is 174,897,911 (March 31, 2011 – 146,433,321).

10. Unitholders' equity (continued):

(a) *Unit option plan:*

As at March 31, 2012, a maximum of 18,000,000 (December 31, 2011 - 18,000,000) Stapled Units were authorized to be issued to the REIT's officers, employees, consultants and certain trustees, of which 9,924,320 options (December 31, 2011 - 8,700,000 options) have been granted. The exercise price of each option approximated the quoted price of the Stapled Units on the date of grant and shall be increased by the amount, if any, by which the fair quoted value of one Finance Trust unit at the time of exercise of such option, exceeds the fair quoted 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, 2012, 1,224,320 options were granted (December 31, 2011 - 1,100,000).

The unit option plan is considered a cash-settled plan with the value of the units recorded as a liability on the unaudited condensed 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 unit options is measured using the Black-Scholes model. 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 measuring fair value. The fair value of the vested unit options as at March 31, 2012 is $10,170 (December 31, 2011 - $8,640).

Unit-based compensation expense of $2,237 for the three months ended March 31, 2012 (March 31, 2011 - $2,794) 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 2012		December 31 2011
	Units	**Weighted average exercise price**	Units	Weighted average exercise price
Outstanding, beginning of period	**2,282,500**	**$ 17.12**	1,560,333	$ 13.95
Granted	**1,224,320**	**23.18**	1,100,000	20.20
Exercised	**(134,667)**	**15.94**	(311,168)	12.74
Expired	**-**	**-**	(66,665)	14.18
Outstanding, end of period	**3,372,153**	**$ 19.37**	2,282,500	$ 17.12
Options exercisable, end of period	**881,168**	**$ 15.85**	657,501	$ 14.95

The options outstanding at March 31, 2012 are exercisable at varying prices ranging from $9.30 to $23.18 (December 31, 2011 - $9.30 to $20.83) with a weighted average remaining life of 8.7 years (December 31, 2011 - 8.3 years). The vested options are exercisable at varying prices ranging from $9.30 to $19.57 (December 31, 2011 - $9.30 to $16.56) with a weighted average remaining life of 7.3 years (December 31, 2011 - 7.1 years).

10. Unitholders' equity (continued):

(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 Tax Act for any year. For the three months ended March 31, 2012 the REIT declared per unit distributions of $0.25 (March 31, 2011 - $0.20).

Pursuant to the 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, 2012 (March 31, 2011 - $0.02).

The details of the distributions are as follows:

	Three months ended March 31	
	2012	2011
Cash distributions to unitholders	**$ 35,074**	$ 26,240
Unit distributions (issued under the DRIP)	**12,928**	6,716
	$ 48,002	$ 32,956

(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 Stapled Units and the REIT 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 REIT; (iv) warrants exercisable to acquire Stapled Units and/or other securities of the REIT; and (v) securities comprised of more than one of Stapled Units, preferred 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. As at March 31, 2012, $512,136 Stapled Units, $100,000 Senior Debentures and $75,000 Convertible Debentures have been issued under the short form base shelf prospectus.

11. Derivative instruments

		Fair value (liability) asset **		Unrealized gain (loss) on derivative contracts* Three months ended March 31	
		March 31 2012	December 31 2011	**2012**	2011
Foreign exchange forward contracts	(a)	**$ 766**	$ (730)	**$ 1,480**	$ 500
Foreign exchange swap	(a)	**-**	1,273	**(1,273)**	-
Foreign exchange swap	(a)	**-**	(1,106)	**1,106**	-
Interest rate swap - the Bow Facility	(b)	**(2,270)**	(3,520)	**1,250**	445
Mortgage interest rate swap	(c)	**(679)**	(716)	**23**	103
		$ (2,183)	$ (4,799)	**$ 2,586**	$ 1,048

a) The REIT entered into foreign exchange forward contracts and swaps with Canadian chartered banks effectively locking the REIT's rate to exchange U.S. dollars into Canadian dollars.

b) The REIT entered into an interest rate swap that is intended to limit its interest rate exposure during the term of the Bow Facility (note 12(b)). As at March 31, 2012, the expected annual effective interest rate for the Bow Facility, including the cost of the swap, is 4.65% (March 31, 2011 - 4.65%).

c) The REIT entered into an interest rate swap on one U.S. mortgage. The expected annual effective interest rate for this mortgage is 5.25%.

* Excludes amounts relating to foreign exchange which have been recorded in accumulated other comprehensive income (loss) (note 14).

** Derivative instruments in asset and liability positions are not presented on a net basis. When a derivative instrument is in an asset position, the amount is recorded in other assets (note 5).

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, 2013. The total facility as at March 31, 2012 is $300,000 (December 31, 2011 - $300,000) and can be drawn in either Canadian or U.S. dollars (to a maximum of $150,000 U.S. dollars for U.S. borrowings). The amount available at March 31, 2012, after taking into account the bank indebtedness drawn of $224,700 (December 31, 2011 - $207,173) and the outstanding letters of credit and other items, is $28,579 (December 31, 2011 - $63,027). The Canadian dollar bank indebtedness bears interest at rates approximating the prime rate of a Canadian chartered bank. At March 31, 2012, the Canadian prime interest rate was 3.00% (December 31, 2011 - 3.00%) per annum.

12. Bank indebtedness (continued):

Included in bank indebtedness at March 31, 2012 are U.S. dollar denominated amounts of $144,146 (December 31, 2011 - U.S. $144,825). The Canadian equivalents of these amounts are $144,146 (December 31, 2011 - $147,722).

(b) A general operating facility which is secured by The Bow (the "Bow Facility") due on November 21, 2013. The total facility as at March 31, 2012 is $400,000 (December 31, 2011 - $400,000) and can be drawn in either Canadian or U.S. dollars (to a maximum of $150,000 U.S. dollars). As at March 31, 2012, the REIT has drawn $150,000 (December 31, 2011 - $233,000) under the Bow Facility and the undrawn amount available at March 31, 2012 is $250,000 (December 31, 2011 - $167,000).

Included in bank indebtedness at March 31, 2012 are U.S. dollar denominated amounts of $150,000 (December 31, 2011 - U.S. $150,000). The Canadian equivalents of these amounts are $150,000 (December 31, 2011 - $153,000).

13. Accounts payable and accrued liabilities:

	March 31 2012	December 31 2011
Current:		
Accounts payable for properties under development	**$ 55,779**	$ 54,332
Other accounts payable and accrued liabilities	**59,177**	53,441
Debenture interest payable	**13,909**	27,164
Prepaid rent	**20,312**	24,356
Mortgage interest payable	**13,792**	13,188
Non-current:		
Security deposits	**3,381**	3,368
	$ 166,350	$ 175,849

14. Accumulated other comprehensive income (loss):

	Cash flow hedges	Foreign operations	Total
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 loss on translation of U.S. denominated foreign operation	-	(3,134)	(3,134)
Balance as at March 31, 2011	(1,871)	(10,583)	(12,454)
Transfer of realized loss on cash flow hedges to net income	289	-	289
Unrealized gain on translation of U.S. denominated foreign operation	-	5,345	5,345
Balance as at December 31, 2011	(1,582)	(5,238)	(6,820)
Transfer of realized loss on cash flow hedges to net income	**99**	**-**	**99**
Unrealized gain on translation of U.S. denominated foreign operation	**-**	**(841)**	**(841)**
Balance as at March 31, 2012	**$ (1,483)**	**$ (6,079)**	**$ (7,562)**

15. Rentals from investment properties:

	Three months ended March 31	
	2012	2011
Rentals from investment properties	**$ 186,218**	$ 152,694
Straight-lining of contractual rent	**434**	837
Rent amortization of tenant inducements	**(366)**	(237)
	$ 186,286	$ 153,294

16. Finance cost - operations:

	Three months ended March 31	
	2012	2011
Contractual interest on mortgages payable	**$ 47,439**	$ 41,067
Contractual interest on debentures payable	**16,254**	14,451
Interest on construction loans	**1,228**	1,302
Effective interest rate accretion	**98**	395
Bank interest and charges	**2,202**	877
Exchangeable unit distributions	**1,495**	1,223
	68,716	59,315
Capitalized interest*	**(16,652)**	(16,695)
	$ 52,064	$ 42,620

* The capitalized interest is determined using the REIT's weighted average rate of borrowing on all financial liabilities of 5.57% (March 31, 2011 - 6.46%).

17. Gain (Loss) on change in fair value:

	Three months ended March 31	
	2012	2011
Gain (loss) on fair value of convertible debentures (note 8)	**$ 4,014**	$ (43,993)
Loss on fair value of exchangeable units (note 9)	**(1,958)**	(13,975)
Unrealized net gain on derivative instruments (note 11)	**2,586**	1,048
	$ 4,642	$ (56,920)

18. Amortization and impairment:

	Three months ended March 31	
	2012	2011
Depreciation of investment properties	**$ 31,524**	$ 24,989
Amortization of intangible assets on acquisitions	**17,340**	9,448
Amortization of above- and below- market rents	**802**	5,316
Amortization of leasing expenses	**1,613**	1,070
Impairment loss on investment properties*	**900**	3,494
	$ 52,179	$ 44,317

* The impairment loss recognized in the three months ended March 31, 2012 relates to two investment properties (March 31, 2011 - three) 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.

19. Supplemental cash flow information:

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

	Three months ended March 31	
	2012	2011
Accrued rent receivable	$ -	$ (630)
Prepaid expenses and sundry assets	**2,970**	(3,170)
Accounts receivable	**3,303**	(1,726)
Accounts payable and accrued liabilities	**12,903**	(2,839)
	$ 19,176	$ (8,365)

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

	Three months ended March 31	
	2012	2011
Acquisition of investment properties through assumption of mortgages payable, net of mark-to-market adjustments	$	$ 6,643
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 10(b))	**12,928**	6,716
Non-cash conversion of convertible debentures (note 8)	**178,025**	17,705
Increase (decrease) in accounts payable for properties under development	**(1,447)**	(901)
Increase (decrease) in accounts payable for tenant inducements	-	(507)
Non-cash proceeds on options exercised	**707**	146

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.

20. Related party transactions (continued):

During the three months ended March 31, 2012, the REIT recorded fees pursuant to this agreement of $5,020 (March 31, 2011 - $3,520), of which $1,310 (March 31, 2011 - $215) was capitalized to the cost of the investment properties acquired, $365 (March 31, 2011 - $399) was capitalized to properties under development and $271 (March 31, 2011 - $2,685) 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, 2012, a further amount of $1,125 (March 31, 2011 - $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.

Pursuant to the above agreement, as at March 31, 2012, $3,026 (December 31, 2011 $3,477) 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, 2012 is $352 (March 31, 2011 - $341).

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

21. Segmented disclosures:

Segmented information on identifiable non-current assets by geographic region and rentals from investment properties is outlined below.

Investment properties and properties under development are attributed to countries based on the location of the properties.

	March 31 2012	December 31 2011
Canada	**$ 5,594,263**	$ 5,359,726
United States	**1,996,591**	2,051,830
	$ 7,590,854	$ 7,411,556

	Three months ended March 31	
	2012	2011
Rentals from investment properties:		
Canada	**$ 134,994**	$ 126,381
United States	**51,292**	26,913
	$ 186,286	$ 153,294

22. Income tax expense:

	Three months ended March 31	
	2012	2011
Income tax expense included in the determination of net income:		
Current	$ **187**	$ 65

The Tax Act 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 Tax Act. The REIT completed the necessary tax restructuring to qualify as a real estate investment trust effective June 30, 2010.

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 $140,000, including capitalized interest, over the remaining construction period. As at March 31, 2012, the total cost incurred on the project amounted to $1,549,543 (note 4) (December 31, 2011 - $1,479,117). This budget includes the construction of 1,358 parking stalls. The first two tranches (floors 3 to 22) were delivered to Encana Corporation on May 2, 2012. Encana Corporation is entitled to a 60-day free rent fixturing period and a rent credit equal to the delay penalty estimated to be $29,200.

(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, 2012, the REIT has outstanding letters of credit totalling $46,696 (December 31, 2011 - $29,775), including $17,352 (December 31, 2011 - $17,431) 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, 2012, the REIT issued guarantees amounting to $73,761 (December 31, 2011 - $74,303), which expires in 2016 (December 31, 2011 - expires in 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, 2012, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $112,644 (December 31, 2011 - $113,407) which expires between 2013 and 2018 (December 31, 2011 - 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 unaudited condensed combined interim financial statements.

23. Commitments and contingencies (continued):

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 unaudited condensed combined interim financial statements.

24. Subsequent events:

(a) In April 2012, the REIT completed a public offering of $175,000 of 4.45% series F senior debentures due March 2, 2020.

(b) In April 2012, the REIT obtained an additional $37,000 non-recourse mortgage bearing interest at 4.14% per annum for a 10-year term on the Corus Quay property.

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, 2012

Dated: May 15, 2012

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SECTION I

BASIS OF PRESENTATION

Financial data included in this Management's Discussion and Analysis ("MD&A") of combined results of operations and combined financial position of H&R Real Estate Investment Trust (the "REIT") and H&R Finance Trust ("Finance Trust" and together with the REIT, the "Trusts") for the three months ended March 31, 2012 includes material information up to May 15, 2012. 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 unaudited condensed combined interim financial statements and appended notes for the three months ended March 31, 2012, together with the combined financial statements and appended notes and MD&A for the year ended December 31, 2011. 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 "Discussion 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: credit risk and tenant concentration; lease rollover risk; interest and financing risk; financing credit risk; currency risk; tax risk; environmental risk; development and financing risk relating to the Bow development; construction risks; debentures; availability of cash for distributions; unit prices, ability to access capital markets, dilution; redemption right; and risks relating to unitholder liability. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that the general economy is stable; local real estate conditions are stable; interest rates are relatively stable; and equity and debt markets continue to provide access to capital. The Trusts caution that this list of factors is not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what the Trusts believe are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

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

All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements are made as of May 15, 2012 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-GAAP 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 or Canadian Generally Accepted Accounting Principles ("GAAP") and therefore do not have standardized meanings prescribed by GAAP. Management believes that these non-GAAP financial measures are a meaningful measure of operating performance as they reject the assumption that the value of real estate investments diminishes predictably over time. These non-GAAP financial measures should not be construed as alternatives to comparable financial measures calculated in accordance with GAAP. Further, the Trusts' method of calculating such supplemental financial measures may differ from the methods of other real estate investment trusts or other issuers and accordingly, such supplemental financial measures used by management may not be comparable to similar measures presented by other real estate investment trusts or other issuers. See "Funds from Operations" and "Adjusted Funds from Operations" for a reconciliation of GAAP measures to non-GAAP 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 redeemed at any time on demand payable in cash (subject to monthly limits) and/or *in specie*, provided that the corresponding Finance Trust units are being contemporaneously redeemed.

Finance Trust is an unincorporated investment trust. Finance Trust was established pursuant to a Plan of Arrangement (the "Plan of Arrangement") on October 1, 2008, as described in the REIT's information circular dated August 20, 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 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, 2012, Finance Trust holds U.S. $150.7 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, 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, 2012**	December 31, 2011
Total assets	**$7,815,635**	$7,637,801
Debt to gross book value of assets (per the REIT's Declaration of Trust)*	**51.5%**	50.5%
Debt to gross book value of assets (per the combined financial statements)*	**57.2%**	57.6%
Debt to fair market value of total assets (per the combined financial statements)*	**52.6%**	53.6%
Stapled Units outstanding	**180,767**	172,554
Exchangeable units of H&R Limited Partnership outstanding	**5,438**	5,438

* These are non-GAAP measures

	Three months ended March 31, 2012	Three months ended March 31, 2011
Property rental revenue	**$186,286**	$153,294
Property operating income	**125,197**	104,426
Adjusted funds from operations ("AFFO")	**71,248**	56,554
Weighted average number of basic Stapled Units for AFFO	**180,336**	151,871
AFFO per basic Stapled Unit	**0.40**	0.37
Distributions paid per Stapled Unit	**0.27**	0.23
Payout ratio per unit as a % of basic AFFO	**67.5%**	62.2%

Net income (loss) is reconciled to FFO which is reconciled to AFFO. AFFO is reconciled to cash provided by operations, being the most comparable GAAP financial measure to these non-GAAP financial measures. See pages 21-24.

KEY PERFORMANCE DRIVERS

OPERATIONS	3 months ended March 31	Office	Industrial	Retail	Total*
Occupancy as at March 31[1]	**2012**	**99.0%**	**98.9%**	**99.8%**	**99.1%**
	2011	99.0%	99.2%	100.0%	99.3%
Occupancy – same asset as at March 31[2]	**2012**	**98.8%**	**98.9%**	**99.8%**	**99.1%**
	2011	99.0%	99.3%	100.0%	99.4%
Average contractual rent per square foot for the three months ended March 31[3]	**2012**	**$22.47**	**$5.70**	**$13.41**	**$11.59**
	2011	$19.61	$5.80	$12.67	$10.19

* weighted average total

(1) Excluding properties where 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 lenders.

(2) Same asset refers to those properties owned by the REIT for the entire 15-month period ended March 31, 2012 and excludes properties sold and assets where 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) For all properties excluding those properties that are held for sale or sold and where 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, 2012	December 31, 2011
Average remaining term to maturity of leases (years)	**11.0**	11.0
Average remaining term to maturity of mortgages payable (years)	**8.0**	7.7

PORTFOLIO OVERVIEW

The geographic diversification of the REIT's portfolio (excluding properties where 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 property to the non-recourse mortgage lenders) as at March 31, 2012 is outlined in the charts below:

NUMBER OF PROPERTIES	Ontario	United States	Alberta	Quebec	Other	Total
Office	24	7	4	1	4	40
Industrial	49	17	19	12	20	117
Retail	32	88	5	5	3	133
Total	105	112	28	18	27	290

Square Feet (in thousands)*	Ontario	United States	Alberta	Quebec	Other	Total
Office	6,603	2,024	1,406	452	884	11,369
Industrial	9,252	7,352	2,810	2,978	1,280	23,672
Retail	1,895	5,128	515	498	524	8,560
Total	17,750	14,504	4,731	3,928	2,688	43,601

* Square feet (in thousands) is based on net leasable area.

PROPERTIES UNDER DEVELOPMENT
(in thousands of Canadian dollars)

Project	Address	**Fair Value March 31, 2012**	**Net Book Value March 31, 2012**	Net Book Value December 31, 2011
The Bow	5th Ave. at Centre Street, Calgary, AB	**$1,685,028**	**$1,549,543**	$1,479,117
Heart Lake	Mayfield West Business Park, Caledon, ON	**92,860**	**88,281**	87,954
Airport Road	7900 Airport Rd., Brampton, ON	**50,995**	**50,201**	49,986
		$1,828,883	**$1,688,025**	$1,617,057

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
2012*	$88,518	$159,812	$248,330	7.3%	6.8%
2013	116,118	107,930	224,048	6.5%	7.5%
2014	123,734	182,632	306,366	9.0%	6.2%
2015	124,829	234,497	359,326	10.5%	5.3%
2016	122,772	289,185	411,957	12.1%	5.3%
Thereafter			1,865,723	54.6%	
			3,415,750	100%	
Mortgages payable due on demand (net of financing cost of $149)(1)			20,270		
Financing cost and mark-to-market adjustment arising on acquisitions(2)			46		
Total			$3,436,066		

* For the balance of the year.

(1) Relates to the two non-recourse mortgages to the REIT for investment properties in which the tenant (Great Atlantic & Pacific Tea Company) has filed for protection under Chapter 11 of the United States Bankruptcy Code. The REIT expects to be released from any further obligations under these non-recourse mortgages upon the transfer of title to the lenders.

(2) Mark-to-market adjustment represents the difference between the actual mortgages assumed on property acquisitions and the fair value of the mortgages at the date of purchase and is recognized in finance cost over the life of the applicable mortgage using the effective interest rate method. 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	7.2	4	1,734	13.4
2.	Hess Corporation	6.3	1	845	[3]
3.	TransCanada Pipelines Limited	6.0	2	950	9.0
4.	Telus Communications	4.8	2	943	11.1
5.	Bell Mobility	4.6	2	775	13.7
6.	New York City Department of Health	3.9	1	670	18.7
7.	Rona Inc.	3.2	14	2,151	7.8
8.	Canadian Tire Corp.	2.7	4	2,189	14.2
9.	Versacold Logistics Canada Inc.	2.7	12	1,733	15.1
10.	Corus Entertainment Inc.	2.6	1	472	19.9
11.	Royal Bank of Canada	2.6	4	477	4.4
12.	Canadian Imperial Bank of Commerce	2.3	7	512	2.9
13.	Lowes Companies Inc.	1.8	11	1,435	7.0
14.	Ontario Realty Corporation and other Ontario Agencies[2]	1.8	1	347	4.3
15.	Nestle USA	1.6	3	2,168	5.7
16.	Nestle Canada Inc.	1.5	1	170	7.4
17.	Shell Oil Products	1.5	18	249	10.3
18.	Public Works of Canada	1.4	3	300	4.9
19.	Purolator Courier	1.4	12	1,071	10.2
20.	Finning International	1.4	16	893	10.0
	Total	**61.3%**	**119**	**20,084**	

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

(2) Other Ontario agencies include: Legal Aid Ontario, Ontario Lottery and Gaming Corporation, Liquor Control Board of Ontario, and Hydro One Networks.

(3) Due to the confidentiality under the tenant lease, the term is not disclosed.

	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
2012*	0.7	14.00	1.2	5.70	0.1	40.01	2.0	10.32
2013	1.3	17.75	3.4	5.26	0.4	11.57	5.1	8.94
2014	1.5	18.55	3.7	4.70	0.2	29.46	5.4	9.46
2015	1.0	22.46	1.8	6.17	0.3	28.03	3.1	13.54
2016	2.1	18.58	5.1	3.93	0.3	20.18	7.5	8.68
	6.6	18.51	15.2	4.82	1.3	22.30	23.1	9.71

* For the balance of the year.

OUTLOOK

During the first quarter of 2012, the REIT purchased a 485,000 square foot state-of-the-art LEED Gold office building in downtown Toronto for $186.0 million at a capitalization rate of 6.4% leased to Corus Entertainment Inc. for 20 years with contractual rental escalations throughout the term. The REIT financed the purchase with a $60.0 million interest only, non-recourse mortgage on this property for a term of 20 years at an interest rate of 4.91% and secured another $37.0 million, pari passu, non-recourse mortgage for a 10-year term at an interest rate of 4.14%. The REIT expects to continue making acquisitions on a very select and disciplined basis.

During Q1 2012, the REIT refinanced mortgages totalling $101.1 million which had an average interest rate of 6.5% per annum with new 10-year mortgages totalling $123.9 million at an average interest rate of 4.2% per annum. The REIT has a further $159.8 million of mortgages maturing in 2012 at a weighted average interest rate of 6.8% per annum. In addition, in July 2012 the REIT intends to redeem the 2013 convertible debentures and the 2014 convertible debentures which bear interest at 6.65% and 6.75%, respectively. As these convertible debentures are currently in the money, the REIT expects the holders to convert them into equity thereby improving the REIT's overall leverage ratios. This would reduce the Trusts' debt to fair market value of assets to 51.1% from the 52.6% as at March 31, 2012.

The Bow's first two tranches (floors 3 to 22) were delivered to Encana Corporation on May 2, 2012. Delivery of further tranches will occur throughout 2012. Encana Corporation is entitled to a 60-day rent free fixturing period and a rent credit equal to the delay penalty estimated to be $29.2 million. This rent free period combined with the interest expense that will no longer be capitalized, as tranches of the project become available for their intended use, will result in an estimated FFO gain of $4.8 million (AFFO loss of $32.1 million) in 2012 as shown in the table below. These estimates do not include any potential mortgage financing on the Bow:

	Q2 2012	Q3 2012	Q4 2012	Total
Contractual rent	$ -	$ -	$ -	$ -
Straight-lining of contractual rent	5.8 million	10.8 million	20.3 million	36.9 million
Interest no longer capitalized	(4.9 million)	(9.6 million)	(17.6 million)	(32.1 million)
Expected Bow FFO	$0.9 million	$1.2 million	$2.7 million	$4.8 million
Expected Bow AFFO	($4.9 million)	($9.6 million)	($17.6 million)	($32.1 million)

Upon full occupancy, the building is expected to generate approximately $93.5 million of net operating income on an annualized basis and the REIT will have additional annual interest expense, due to interest expense no longer being capitalized to the project, of approximately $62.0 million. Rent escalations will be at 0.75% per annum on the office space and 1.5% per annum on the parking income for the full 25-year term.

Management remains optimistic and excited about the REIT's ability to continue to grow and prosper in the coming year. Consistent with this positive outlook, the Trusts' trustees have adopted the following distribution policy:

Distribution Period	Intended Monthly Distribution Per Stapled Unit	Intended Annualized Distribution Per Stapled Unit
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 trustees, there is no assurance that the actual distributions declared will be as provided in the distribution policy.

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, 2011[1]**	Year Ended December 31, 2010[1]	Year Ended December 31, 2009[1]
Rentals from investment properties	**$656,911**	$617,427	$605,165
Finance income	**1,051**	2,589	6,222
Net income (loss)	**(25,277)**	496,600	86,525
Comprehensive income (loss)	**(22,681)**	490,438	75,348
Total assets	**7,637,801**	5,998,640	5,351,123
Mortgages payable	**3,163,593**	2,706,707	2,818,476
Debentures payable	**1,370,917**	965,828	565,758
Cash distributions per unit	**$0.98**	$0.79	$0.72

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

For a discussion of the changes between the periods noted above, please see the 2011 and 2010 MD&A.

DISCUSSION OF OPERATIONS

(in thousands of Canadian dollars)	Three months ended March 31 2012	2011	% Change
Property operating income:			
Rentals from investment properties	**$186,286**	$153,294	22
Property operating costs	**(61,089)**	(48,868)	25
	125,197	104,426	20
Finance costs:			
Finance income	**624**	366	70
Finance cost - operations	**(52,064)**	(42,620)	22
Gain on extinguishment of debt	**-**	14,785	(100)
Gain (loss) on change in fair value	**4,642**	(56,920)	(108)
	(46,798)	(84,389)	(45)
Amortization and impairment	**(52,179)**	(44,317)	18
Net loss on foreign exchange	**(5,105)**	(2,199)	132
Trust expenses	**(4,172)**	(4,770)	(13)
Net income (loss) before income taxes	**16,943**	(31,249)	(154)
Income tax expense	**(187)**	(65)	
Net income (loss)	**16,756**	(31,314)	
Other comprehensive income (loss):			
Unrealized loss on translation of U.S. denominated foreign operations	**(841)**	(3,134)	
Transfer of realized loss on cash flow hedges to net income	**99**	96	
	(742)	(3,038)	
Total comprehensive income (loss) attributable to unitholders	**$16,014**	($34,352)	

The increase in net income (loss) for the three months ended March 31, 2012 as compared to the three months ended March 31, 2011 is primarily due to the change in the gain (loss) on fair value and property operating income increasing due to acquisitions over the last 15 months. Offsetting these increases to income were increases in finance costs, amortization and impairment and a decrease in the gain on extinguishment of debt.

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 and realty tax recoveries.

Rentals from Investment Properties	Three months ended March 31		
(in thousands of Canadian dollars)	**2012**	2011	Change
Same-asset – current rentals	**$150,823**	$151,502	($679)
Same-asset – straight-lining of contractual rent	**(1,780)**	1,080	(2,860)
Same-asset rent amortization of tenant inducements	**(366)**	(237)	(129)
Acquisitions – current rentals, rent amortization of tenant inducements	**35,357**	324	35,033
Acquisitions - straight-lining of contractual rent	**2,214**	4	2,210
Terminated leases due to U.S. bankruptcies	**38**	37	1
Properties sold	**-**	584	(584)
Total rentals	**$186,286**	$153,294	$32,992

The decrease in same-asset current rentals of $0.7 million for Q1 2012 as compared to Q1 2011 is primarily due to the following:

- a net increase of $2.2 million in rentals;
- lower tenant recoveries of $2.4 million which resulted from lower regular property operating expenses; and
- a decrease of $0.4 million in additional rent recoverable from tenants in accordance with their leases for items which were capitalized to building improvements.

The decrease of $2.9 million in the same-asset straight-lining of contractual rent for Q1 2012 as compared to Q1 2011 includes a one-time smoothing adjustment of $0.6 million. Without this one-time adjustment, the decrease would have been $2.3 million.

Rentals from acquisitions including current rentals, rent amortization and straight-lining of contractual rent increased by $37.2 million in Q1 2012 compared to Q1 2011. The increase is primarily due to the 12 property acquisitions between January 1, 2011 and March 31, 2012.

Property Operating Costs

For Q1 2012, realty taxes, maintenance, utilities and property management fees represented 51.5%, 25.7%, 11.8% and 7.2%, respectively, of total property operating costs (Q1 2011 - 55.1%, 25.1%, 15.1% and 1.9%). Maintenance includes costs relating to such items as cleaning, interior and exterior building repairs and maintenance, elevator, HVAC, security and wages and benefits.

Property Operating Costs	Three months ended March 31		
(in thousands of Canadian dollars)	**2012**	2011	Change
Same-asset property operating costs	**$48,774**	$48,635	$139
Acquisitions	**12,285**	21	12,264
Terminated leases due to U.S. bankruptcies	**30**	28	2
Properties sold	**-**	184	(184)
Total property operating costs	**$61,089**	$48,868	$12,221

The increase in same-asset property operating costs of $0.1 million for Q1 2012 as compared to Q1 2011 is due primarily to the following reasons:

- lower regular property operating expenses of $2.4 million;
- lower major repair expenditures of $0.4 million; and
- higher management fees of $3.0 million due primarily to a decrease of $2.4 million in management fees being capitalized to leasing expenses in Q1 2012 compared to Q1 2011.

Same-Asset Property Operating Income*	Three months ended March 31		
(in thousands of Canadian dollars)	**2012**	2011	Change
Same-asset current rentals and straight-lining of contractual rent	**$149,043**	$152,582	($3,539)
Same-asset - property operating costs	**48,774**	48,635	139
Total same-asset - property operating income	**100,269**	103,947	(3,678)
Total same-asset - property operating income excluding straight-lining of contractual rent	**$102,049**	$102,867	($818)

* 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 lenders.

Total same-asset property operating income, excluding straight-lining of contractual rent, has decreased by $0.8 million for the three months ended March 31, 2012 as compared to March 31, 2011, of which a $0.7 million decrease is from Canadian operations and a $0.1 million decrease is from U.S. operations. See the table below for further details:

	Three months ended March 31		
Canada (in thousands of Canadian dollars)	**2012**	2011	Change
Same-asset current rentals	**$124,391**	$124,936	($545)
Same-asset property operating costs	**44,320**	44,154	166
Same-asset property operating income excluding straight-lining of contractual rent	**80,071**	80,782	(711)
United States (in thousands of Canadian dollars)			
Same-asset current rentals	**26,432**	26,566	(134)
Same-asset property operating costs	**4,454**	4,481	(27)
Same-asset property operating income excluding straight-lining of contractual rent	**21,978**	22,085	(107)
Total same-asset property operating income*	**$102,049**	$102,867	($818)

* 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 lenders.

Had the same-asset property operating income excluding the straight-lining of contractual rent for properties located in the United States been shown in U.S. dollars, the adjusted property operating income would have been $22.0 million for the three months ended March 31, 2012 as compared to income of $22.3 million for the three months ended March 31, 2011.

Finance Cost-Operations	Three months ended March 31		
(in thousands of Canadian dollars)	**2012**	2011	Change
Contractual interest on mortgages payable	**$47,439**	$41,067	$6,372
Contractual interest on debentures payable	**16,254**	14,451	1,803
Interest on construction loans	**1,228**	1,302	(74)
Effective interest rate accretion	**98**	395	(297)
Bank interest and charges	**2,202**	877	1,325
Exchangeable unit distributions	**1,495**	1,223	272
	68,716	59,315	9,401
Capitalized interest	**(16,652)**	(16,695)	43
Finance cost - operations	**$52,064**	$42,620	$9,444

The increase in contractual interest on mortgages payable for the three months ended March 31, 2012 compared to the respective 2011 period is primarily due to new mortgages acquired during 2011 and 2012.

Debenture interest increased for the three months ended March 31, 2012 by $1.8 million compared to the respective 2011 period primarily due to an increase of $2.1 million from the REIT issuing $100 million of non-convertible debentures in October 2011 and $75 million convertible debentures in November 2011.

The amount of capitalized interest is expected to decrease as the Bow approaches completion and the tenant begins to take possession of the premises.

Finance Cost - Gain on Extinguishment of Debt	Three months ended March 31		
(in thousands of Canadian dollars)	**2012**	2011	Change
Gain on extinguishment of debt	-	$14,785	($14,785)

In March 2011, the REIT was legally released from its mortgages on two Bruno's Supermarkets LLC properties and two Boscov's Department Stores properties upon the lender accepting title to the properties. As a result, the investment properties, the mortgages and the accrued interest on the mortgages were all derecognized resulting in a gain on extinguishment of debt of $14.8 million for the three months ended March 31, 2011. No such event occurred during the three months ended March 31, 2012.

Finance Cost - Gain (Loss) on Change in Fair Value	Three months ended March 31		
(in thousands of Canadian dollars)	**2012**	2011	Change
Gain (loss) on fair value of convertible debentures	**$4,014**	($43,993)	$48,007
Loss on fair value of exchangeable units	**(1,958)**	(13,975)	12,017
Unrealized net gain on derivative instruments	**2,586**	1,048	1,538
Finance cost - gain (loss) on change in fair value	**$4,642**	($56,920)	$61,562

The REIT has elected to measure the outstanding convertible debentures at fair value. For each period end until December 31, 2011 the fair value of these convertible debentures was measured based on the ask price of each series of convertible debentures. Beginning January 1, 2012, the REIT early adopted IFRS 13, *Fair Value Measurement*, which allows the REIT to use the quoted prices instead of the ask prices to fair value each series of convertible debentures and Stapled Units. The fluctuation in fair value between each period is recorded as a gain (loss) in changes in fair values in comprehensive income. The quoted price of Stapled Units which was $23.66 on March 31, 2012 (December 31, 2011 - $23.30).

The unrealized gain on derivative instruments resulted from:

(i) 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;

(ii) the REIT entering into foreign exchange forward contracts and swaps with Canadian chartered banks which effectively locked the REIT's rate to exchange U.S. dollars in order to lock in a portion of the REIT's projected USD FFO and AFFO at a fixed Canadian dollar amount. The 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; and

(iii) the REIT securing a floating rate mortgage on a U.S. property in June 2010. In order to fix the interest rate, the REIT entered into an interest rate swap, which is marked-to-market through earnings each reporting period.

Refer to page 19 for a financial summary of all derivative instruments held by the REIT.

Amortization and Impairment

(in thousands of Canadian dollars)	Three months ended March 31		
	2012	2011	Change
Depreciation of investment properties	**$31,524**	$24,989	$6,535
Amortization of intangible assets on acquisitions	**17,340**	9,448	7,892
Amortization of above- and below- market rents	**802**	5,316	(4,514)
Amortization of leasing expenses	**1,613**	1,070	543
Impairment loss on investment properties	**900**	3,494	(2,594)
Amortization and impairment	**$52,179**	$44,317	$7,862

The impairment loss recognized in the three months ended March 31, 2012 relates to two investment properties (March 31, 2011 - 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.

Net Loss on Foreign Exchange

(in thousands of Canadian dollars)	Three months ended March 31		
	2012	2011	Change
Net loss on foreign exchange	**$5,105**	$2,199	$2,906

The net loss on foreign exchange is made up of the following items:

(i) A foreign exchange loss of $2.6 million for the three months ended March 31, 2012 (March 31, 2011 - $2.2 million) which was recorded in the financial statements of Finance Trust 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.

(ii) For the acquisition of Hess Tower in December 2011, the REIT loaned U.S. Holdco $250.0 million on December 22, 2011 which was repaid on January 23, 2012. The loss represents a change in the foreign exchange rates between these dates. Although for accounting purposes, this resulted in a foreign exchange loss of $2.5 million for the three months ended March 31, 2012, the REIT had entered into a forward contact which on a cash basis, resulted in no gain or loss.

Trust Expenses

(in thousands of Canadian dollars)	Three months ended March 31 2012	2011	Change
Unit-based compensation	**$2,237**	$2,794	($557)
Other expenses	**1,935**	1,976	(41)
Trust expenses	**$4,172**	$4,770	($598)

Other expenses are primarily comprised of salaries, professional fees, trustee fees and overhead expenses.

The REIT's Unit Option Plan is considered to be cash-settled under IFRS 2, *Share-based Payments* and as a result, is measured at each reporting period and settlement date at its fair value. The impact of the fair value adjustment to unit-based compensation is as follows:

Unit-based Compensation

(in thousands of Canadian dollars)	Three months ended March 31 2012	2011	Change
Unit-based compensation	**$778**	$429	$349
Fair value adjustment to unit-based compensation	**1,459**	2,365	(906)
As reported under IFRS	**$2,237**	$2,794	($557)

Income Tax Expense

(in thousands of Canadian dollars)	Three months ended March 31 2012	2011	Change
Current income tax expense	**$187**	$65	$122

The REIT is generally subject to tax in Canada under the Tax Act with respect to its taxable income each year, except to the extent such taxable income is paid or made payable to unitholders and deducted by the REIT for tax purposes. The current income tax expense is primarily due to U.S. state taxes.

SEGMENTED INFORMATION

The REIT invests in investment 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, 2012

(in thousands of Canadian dollars)	Canada	United States	Total
Rentals from investment properties	$134,994	$51,292	$186,286
Property operating costs	(50,285)	(10,804)	(61,089)
Property operating income	$84,709	$40,488	$125,197

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

The increase in U.S. property operating income of $18.1 million for the three months ended March 31, 2012, as compared to the respective 2011 period, is primarily due to an increase in rentals from acquisitions as the REIT has acquired eight properties in the United States between January 1, 2011 and March 31, 2012. See page 11 for the effect of the change in foreign exchange rates on the U.S. same-store property operating income.

ASSETS

Investment Properties

The REIT acquired one property during the period ended March 31, 2012. The cost of this acquisition less mortgages assumed were funded from the REIT's general operating facilities and cash on hand. There were 11 properties acquired during the year ended December 31, 2011.

2012 Acquisitions:

Property	Year Built	Property Type	Date Acquired	Square Footage	Cash Purchase Price ($ Millions)	Anchor Tenants	Average Remaining Lease Term (years)
25 Dockside Dr., Toronto, ON	2009	Office	Mar 9, 2012	485,000	$186.0	Corus Entertainment Inc.	20

The REIT closed a $60.0 million interest only mortgage for a term of 20 years at an interest rate of 4.91%. The REIT secured another $37.0 million first mortgage on this property for a term of 10 years at an interest rate of 4.14%, which closed in April 2012. Both mortgages are non-recourse to the REIT.

The REIT did not sell any properties during the three months ended March 31, 2012. There were four properties sold during the year ended December 31, 2011.

The portfolio continues to remain in good condition. The average age of the total portfolio from the date built or renovated is 17.2 years at March 31, 2012 (December 31, 2011 - 17.2 years) and the average age of properties by type of asset is as follows:

Average Age by Type of Asset	March 31, 2012 (years)	December 31, 2011 (years)
Office	**18.2**	18.6
Industrial	**18.1**	17.9
Retail	**13.6**	13.3
Total	**17.2**	17.2

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 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 fair value and 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, 2012[1]	Net Book Value March 31, 2012[2]	Net Book Value December 31, 2011[2]
Office	$4,213	$3,534	$3,387
Industrial	1,811	1,337	1,354
Retail	1,446	1,188	1,210
Total	$7,470	$6,059	$5,951

Region (millions)	Fair Value March 31, 2012[1]	Net Book Value March 31, 2012[2]	Net Book Value December 31, 2011[2]
Ontario	$3,331	$2,615	$2,441
Alberta	1,076	767	774
Quebec	379	270	273
Other	512	392	394
Canada	5,298	4,044	3,882
United States	2,172	2,015	2,069
Total	$7,470	$6,059	$5,951

(1) Please refer to note 3 of the financial statements for the assumptions and methods in measuring the fair value of the portfolio.

(2) Net book value includes investment properties and accrued rent receivable.

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
2012*	$29 million	$21 million	$8 million	$24 million	$17 million	$7 million
2013	$21 million	$16 million	$5 million	$19 million	$12 million	$7 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 is currently developing the Bow in Calgary, AB. 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. The North Block budget is currently $1.66 billion leaving approximately $139.9 million remaining to be spent. The first two tranches (floors 3 to 22) were delivered to Encana Corporation on May 2, 2012. Delivery of further tranches will occur throughout 2012. Refer to the Outlook section of the MD&A for further information.

The following table shows the current budget, costs incurred to date and the costs to complete:

(in thousands of Canadian dollars)	North Block Budget	South Block Budget	Costs Incurred to Date	Costs to Complete
Land	$42,804	$18,000	$60,804	$ -
Financing costs	38,900	-	34,139	4,761
Capitalized interest on the REIT's costs as incurred	231,722	-	201,822	29,900
Soft costs	179,839	-	162,150	17,689
Hard costs	1,204,458	10,087	1,150,271	64,274
Recoveries and other income	(68,358)	-	(59,644)	(8,714)
Contingency	31,962	-	-	31,962
Budget/costs incurred to date/remaining costs	1,661,327	28,087	1,549,542	139,872
Less capitalized interest on the REIT's costs incurred	(231,722)	-	(201,822)	(29,900)
Budget/total costs incurred to date/remaining costs/ less capitalized interest	$1,429,605	$28,087	$1,347,720	$109,972

On March 16, 2012, the Bow was valued by a professional external independent appraiser at $1,795,000 assuming the building was 100% complete.

Accrued Rent Receivable

Certain leases call for rental payments that increase over the lease term. 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 decreased by $0.1 million from $156.5 million at December 31, 2011 to $156.4 million at March 31, 2012.

Other Assets

(in thousands of Canadian dollars)	**March 31, 2012**	December 31, 2011
Current:		
Restricted cash	**$11,371**	$22,110
Accounts receivable	**9,408**	12,711
Prepaid expenses and sundry assets	**9,989**	12,959
Derivative instruments	**766**	1,273
Other Assets	**$31,534**	$49,053

Restricted cash decreased from $22.1 million at December 31, 2011 to $11.3 million at March 31, 2012 due primarily to a decrease in funds no longer being held in escrow relating to rent paid in advance and the sale of an industrial property in 2011.

Accounts receivable has decreased from $12.7 million at December 31, 2011 to $9.4 million at March 31, 2012 primarily due to large capital expenditures for a few large tenants incurred by the REIT in 2011, but collected from the tenant during the three months ended March 31, 2012.

Prepaid expenses and sundry assets have decreased from $13.0 million at December 31, 2011 to $10.0 million at March 31, 2012 primarily due to the return of mortgage application fee deposits on several properties for mortgages which were closed in Q1 2012.

Derivative instruments in asset and liability positions are not presented on a net basis. Refer to page 19 for a summary of all derivative instruments held by the REIT.

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, 2012	December 31, 2011
Total debt to GBV per the REIT's Declaration of Trust[1]	**51.5%**	50.5%
Total debt to GBV per the combined financial statements	**57.2%**	57.6%
Total debt to fair market value of total assets as per the combined financial statements	**52.6%**	53.6%
Non-recourse mortgages as a percentage of total mortgages	**62.4%**	59.8%
Floating rate debt as a percentage of total debt	**7.6%**	9.1%
Canadian properties total debt to GBV	**54.0%**	60.5%
U.S. properties total debt to GBV	**66.3%**	49.7%

(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. This is considered to be a non-GAAP measure.

The non-recourse mortgages as a percentage of total mortgages increased due to non-recourse mortgages acquired or assumed from the 2011 and 2012 acquisitions. The U.S. properties total debt to GBV ratio increased as the REIT acquired Hess Tower at an acquisition price of U.S. $442.5 million in December 2011 and the mortgage of U.S. $250.0 million was not received until January 2012.

Mortgages Payable
(in thousands of Canadian dollars)

Opening balance - December 31, 2011	$3,163,593
Principal payments	(28,581)
Mortgages repaid upon maturity	(105,235)
New mortgages	428,971
Foreign exchange difference	(22,682)
Closing balance – March 31, 2012	**$3,436,066**

The mortgages outstanding as at March 31, 2012 bear interest at a weighted average rate of 5.7% (December 31, 2011 – 5.9%) and mature between 2012 and 2035. The weighted average term to maturity of the REIT's mortgages is 8.0 years (December 31, 2011 - 7.7 years). Of the total mortgages (excluding mortgages due on demand), 7.3% will mature in 2012 and 6.5% will mature in 2013. The remaining mortgages maturing during 2012 bear interest at a weighted average rate on maturity of 6.8% while mortgages maturing during 2013 bear interest at a weighted average rate on maturity of 7.5%. For a further discussion of liquidity please see "Funding of future commitments". 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, 2012**	December 31, 2011
Mortgages payable - Canada	**$2,086,626**	$2,015,424
Mortgages payable - United States	**1,349,440**	1,148,169
Total	**$3,436,066**	$3,163,593

Debentures Payable

	Maturity	Contractual Interest Rate	Effective Interest Rate	Conversion Price	Face Value (in millions)	**March 31, 2012** Carrying Value (in millions)	December 31, 2011 Carrying Value (in millions)
Convertible Debentures							
2013 Convertible Debentures (HR.DB)	Jun 30, 2013	6.65%	6.65%	$23.11	$114.9	**$121.6**	$126.2
2014 Convertible Debentures (HR.DB.B)	Dec 31, 2014	6.75%	6.75%	14.00	23.2	**39.1**	214.4
2017 Convertible Debentures (HR.DB.C)	Jun 30, 2017	6.00%	6.00%	19.00	169.3	**212.5**	210.6
2020 Convertible Debentures (HR.DB.D)	Jun 30, 2020	5.90%	5.90%	23.50	100.0	**110.0**	113.0
2016 Convertible Debentures (HR.DB.E)	Dec 31, 2016	4.50%	4.50%	25.70	75.0	**77.0**	78.0
					482.4	**560.2**	742.2
Senior Debentures							
Series A Senior Debentures	Feb 3, 2015	5.20%	5.40%	n/a	115.0	**114.3**	114.3
Series B Senior Debentures	Feb 3, 2017	5.90%	6.06%	n/a	115.0	**114.2**	114.2
Series C Senior Debentures	Dec 1, 2018	5.00%	5.30%	n/a	125.0	**122.9**	122.9
Series D Senior Debentures	Jul 27, 2016	4.78%	4.96%	n/a	180.0	**178.8**	178.7
Series E Senior Debentures	Feb 2, 2018	4.90%	5.22%	n/a	100.0	**98.6**	98.6
					635.0	**628.8**	628.7
Total					$1,117.4	**$1,189.0**	$1,370.9

Debentures payable decreased by $181.9 million mainly due to the conversion of the 2014 convertible debentures into Stapled Units. The REIT intends to redeem the remaining 2013 convertible debentures and 2014 convertible debentures in July 2012.

Derivative Instruments
(in thousands of Canadian dollars)

		Fair value (liability) asset**		Unrealized gain (loss) on derivative contracts*	
				Three months ended March 31	
		March 31, 2012	December 31, 2011	**2012**	2011
Foreign exchange forward contracts	(a)	**$766**	($730)	**$1,480**	$500
Foreign exchange swap	(a)	**-**	1,273	**(1,273)**	-
Foreign exchange swap	(a)	**-**	(1,106)	**1,106**	-
Interest rate swap - the Bow Facility	(b)	**(2,270)**	(3,520)	**1,250**	445
Mortgage interest rate swap	(c)	**(679)**	(716)	**23**	103
		($2,183)	($4,799)	**$2,586**	$1,048

(a) The REIT entered into foreign exchange forward contracts and swaps with Canadian chartered banks effectively locking the REIT's rate to exchange U.S. dollars into Canadian dollars.

(b) 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, 2012, the expected annual effective interest rate for the Bow Facility, including the cost of the swap, is 4.65% (March 31, 2011 - 4.65%).

(c) The REIT entered into an interest rate swap on one U.S. mortgage. The expected annual effective interest rate for this mortgage is 5.25%.

* Excludes amounts relating to foreign exchange which have been recorded in accumulated other comprehensive income (loss) in the March 31, 2012 unaudited condensed consolidated interim financial statements.

** Derivative instruments in asset and liability positions are not presented on a net basis. When a derivative instrument is in an asset position, the amount is recorded in other assets (page 17 of the MD&A).

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities decreased by $9.5 million between December 31, 2011 and March 31, 2012. Debenture interest accrued decreased by $13.3 million from December 31, 2011 to March 31, 2012, as convertible debenture interest for 2011 was paid on January 3, 2012. Accruals relating to properties under development totalled $55.8 million at March 31, 2012 compared to $54.3 million at December 31, 2011. The remaining balance of accounts payable and accruals increased as a result of routine transactions with tenants occurring in the normal course of business operations.

EQUITY

Unitholders' Equity

Unitholders' equity increased by $161.8 million between December 31, 2011 and March 31, 2012. The increase is primarily due to the REIT and Finance Trust issuing units resulting from conversions of the 2014 debentures and net income for the three months ended March 31, 2012. This increase was partially offset by distributions paid to unitholders during the same period.

Other comprehensive loss consists of the unrealized loss on translation of U.S. denominated foreign operations and the transfer of realized losses on cash flow hedges to net income.

LIQUIDITY AND CAPITAL RESOURCES

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) except for the adjustment to exchangeable unit distributions and the fair value change to unit-based compensation expense. FFO is a non-GAAP 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)	**2012**	2011
Net income (loss)	**$16,756**	($31,314)
Add (deduct):		
(Gain) loss on fair value of convertible debentures and exchangeable units	**(2,056)**	57,968
Unrealized net gain loss on derivative instruments	**(2,586)**	(1,048)
Exchangeable unit distributions	**1,495**	1,223
Amortization and impairment	**52,179**	44,317
Net loss on foreign exchange	**5,105**	2,199
Fair value adjustment to unit-based compensation	**1,459**	2,365
FFO	**$72,352**	$75,710
Weighted average number of Stapled Units (in thousands of Stapled Units adjusted for conversion of exchangeable units)	**180,336**	151,871
Diluted weighted average number of Stapled Units (in thousands of Stapled Units) for the calculation of FFO[1][2][3]	**209,382**	181,017
FFO per Stapled Unit (basic – adjusted for conversion of exchangeable units)	**$0.40**	$0.50
FFO per Stapled Unit (diluted)	**$0.39**	$0.46

(1) For the three months ended March 31, 2012 and 2011, 646,701 Stapled Units and 538,244 Stapled Units, respectively, are included in the determination of diluted FFO with respect to the Unit Option Plan.

(2) All of the Convertible Debentures are dilutive for the three months ended March 31, 2012. Therefore, debenture interest of $8.2 million is added to FFO and 28,399,664 Stapled Units are included in the diluted weighted average number of Stapled Units outstanding for this period.

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

Included in FFO is a gain on extinguishment of debt of $nil for the three months ended March 31, 2012 (March 31, 2011 - $14.8 million). Excluding the gain on extinguishment of debt, FFO for the three months ended March 31, 2011 would have been $60.9 million ($0.40 per basic Stapled Unit and $0.38 per diluted Stapled Unit).

The primary reasons for the decrease of $3.4 million in FFO between Q1 2012 and Q1 2011 are:

- an increase of $25.0 million in property operating income due to acquisitions in 2011 and 2012;
- a decrease of $2.9 million in property operating income due to straight-lining of contractual rent. See same-asset straight-lining of contractual rent on page 10 for further details;
- a decrease of $0.7 million due to lower same-asset current rentals. See same-asset current rentals on page 10 for further details;
- a decrease of $0.1 million due to higher same-asset property operating costs. See same-asset property operating costs on page 10 for further details;
- a decrease of $0.5 million in property operating income due to properties sold;
- an increase of $0.3 million due to higher finance income;
- a decrease of $9.2 million due to higher finance cost - operations;
- a decrease of $14.8 million due to the change in the gain on extinguishment of debt; and
- a decrease of $0.3 million due to higher trust expenses.

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. 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 eventually result in a (gain) loss on extinguishment of debt, once the lender of the bankrupt properties takes legal title of properties. Non-recurring costs that impact operating cash flow may be adjusted and capital and tenant expenditures incurred and capitalized in the period by the Trusts are deducted from AFFO. AFFO is a non-GAAP 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)	**2012**	2011
FFO	**$72,352**	$75,710
Add (deduct):		
Straight-lining of contractual rent	**(434)**	(837)
Rent amortization of tenant inducements	**366**	237
Effective interest rate accretion	**98**	395
Mortgage interest accruals on non-recourse mortgage defaults	**293**	1,018
Gain on extinguishment of debt	**-**	(14,785)
Unit-based compensation	**778**	429
Capital expenditures	**(1,103)**	(989)
Tenant expenditures	**(1,102)**	(4,624)
AFFO	**$71,248**	$56,554
Weighted average number of Stapled Units (in thousands of Stapled Units adjusted for conversion of exchangeable units)	**180,336**	151,871
Diluted weighted average number of Stapled Units (in thousands of Stapled Units) for the calculation of AFFO(1)(2)(3)	**209,382**	176,041
AFFO per Stapled Unit (basic - adjusted for conversion of exchangeable units)	**$0.40**	$0.37
AFFO per Stapled Unit (diluted)	**$0.38**	$0.36
Distributions per Stapled Unit	**$0.27**	$0.23
Payout ratio	**67.5%**	62.2%

(1) For the three months ended March 31, 2012 and 2011, 646,701 Stapled Units and 538,244 Stapled Units, respectively, are included in the determination of diluted AFFO with respect to the Unit Option Plan.

(2) All of the Convertible Debentures are dilutive for the three months ended March 31, 2012. Therefore, debenture interest of $8.2 million is added to AFFO and 28,399,664 Stapled Units is included in the dilutive weighted average number of Stapled Units outstanding for this period.

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

Included in AFFO were capital and tenant expenditures of $2.2 million for the three months ended March 31, 2012 (March 31, 2011 - $5.6 million). Excluding capital and tenant expenditures, AFFO would have been $73.5 million ($0.41 per Stapled Unit) compared to $62.2 million ($0.41 per Stapled Unit) for the three months ended March 31, 2012 and 2011, respectively.

The primary reasons for the increase of $14.7 million in AFFO between Q1 2012 and Q1 2011 are:

- an increase in property operating income of $22.8 million due to acquisitions in 2011 and 2012;
- a decrease of $0.7 million due to lower same-asset current rentals. See same-asset current rentals on page 10 for further details;
- a decrease of $0.1 million due to higher same-asset property operating costs. See same-asset property operating costs on page 10 for further details;
- a decrease in property operating income of $0.7 million due to properties sold;
- an increase of $0.3 million due to higher finance income;
- a decrease of $10.2 million due to higher finance cost - operations; and
- an increase of $3.4 million due to lower capital and tenant expenditures.

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

	Three months ended March 31	
(in thousands of Canadian dollars)	**2012**	2011
Adjusted funds from operations	**$71,248**	$56,554
Straight-lining of contractual rent	**434**	837
Mortgage interest accruals on non-recourse mortgage defaults	**(293)**	(1,018)
Exchangeable unit distributions	**(1,495)**	(1,223)
Additions to capital expenditures and tenant expenditures	**2,205**	5,613
Finance cost - operations	**52,064**	42,620
Effective interest rate accretion	**(98)**	(395)
Change in other non-cash operating items	**19,176**	(8,365)
Gain (loss) on foreign exchange	**2**	(1)
Cash provided by operations	**$143,243**	$94,622

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, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Cash provided by operating activities	**$143,243**	$404,727	$399,781
Net income (loss)	**16,756**	(25,277)	496,600
Actual cash distributions paid or payable relating to the period	**35,074**	114,112	99,426
Excess of cash provided by operating activities over cash distributions paid	**108,169**	290,615	300,355
Excess (shortfall) of net income over cash distributions paid	**(18,318)**	(139,389)	397,174

For the three months ended March 31, 2012 and years ended December 31, 2011 and 2010, cash provided by operating activities exceeded cash distributions. Management expects this trend to continue. Cash distributions paid exceeded net income (loss) for the three months ended March 31, 2012 and the year ended December 31, 2011 due to non-cash items which are deducted or added in determining net income. Net income exceeded cash distributions paid for the year ended December 31, 2010. Non-cash items such as gain (loss) on change in fair value, impairment losses, gain (loss) on extinguishment of debt, deferred income tax recoveries, 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 Trusts' ongoing obligations and to finance short-term development commitments through the issue of new securities, as well as by using conventional real estate debt, selling or refinancing other assets, the general operating facilities discussed below and the Trusts' cash flow from operations. As at March 31, 2012, 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 the two Great Atlantic and Pacific Tea Company non-recourse mortgages following the Chapter 11 filings of this tenant. The REIT's subsidiaries have handed over control of these properties to the respective mortgage lenders and is waiting for the lenders 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, 2013 and is secured by certain income properties. At March 31, 2012, approximately $28.6 million was available under this facility. The REIT also has a second general operating facility with another Canadian chartered bank. This facility expires November 21, 2013 and is secured by the Bow. At March 31, 2012, approximately $250.0 million was available under this facility.

Other than the Bow development which is described in greater detail under "Properties under Development", the following is a summary of material contractual obligations of the REIT (excluding mortgages due on demand) including payments due as at March 31, 2012 for the next 5 years and thereafter:

	Payments Due by Period				
Contractual Obligations (in thousands of Canadian dollars)	2012	2013-2014	2015-2016	2017 and thereafter	Total
Mortgages payable	$248,330	$530,414	$771,283	$1,865,723	$3,415,750
2013 Convertible debentures	-	114,825	-	-	114,825
2014 Convertible debentures	-	23,246	-	-	23,246
2016 Convertible debentures	-	-	75,000	-	75,000
2017 Convertible debentures	-	-	-	169,320	169,320
2020 Convertible debentures	-	-	-	99,990	99,990
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
Series E Senior Debentures	-	-	-	100,000	100,000
Bank indebtedness	-	374,700	-	-	374,700
Total Contractual Obligations	$248,330	$1,043,185	$1,141,283	$2,475,033	$4,907,831

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, 2012. 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. A credit rating is not a recommendation to buy, sell or hold securities.

The REIT has no material capital or operating lease obligations.

Funding of Future Commitments

The REIT believes that as at March 31, 2012, through the combined amount available under its general operating facilities of $278.6 million, it has sufficient funds for the property acquisition commitments and to complete the development of the Bow. Please refer to "Properties under Development" for further details on the costs to complete.

The REIT's capacity to fund future acquisitions, capital expenditures and commitments was in excess of $1.9 billion as at March 31, 2012. 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 its banking covenants.

The following summarizes the estimated loan to value ratios that will be outstanding on properties whose mortgages mature over the next five years:

Year	Number of Properties	Mortgage Debt due on Maturity ($000's)	Weighted Average Interest Rate on Maturity	2012 Estimated Property Operating Income ($000's)(1)	Loan to Value(2)
2012*	7	$159,812	6.8%	$29,376	38%
2013	10	107,930	7.5%	22,518	34%
2014	8	182,632	6.2%	26,874	48%
2015	22	216,497 (3)	5.4%	28,838	53%
2016	37	289,185	5.3%	39,107	52%
	84	$956,056		$146,713	46%

* For the balance of the year.
(1) Converting U.S. dollars to Canadian dollars at an exchange rate of $1.00.
(2) Using a 7% capitalization rate
(3) Excludes $18.0 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 refinance these mortgages upon maturity should it choose to do so. In February 2012, the REIT refinanced three U.S. mortgages totalling U.S. $72.6 million, bearing interest at a rate of 5.94% per annum, with three new non-recourse U.S. mortgages totalling $61.0 million, bearing interest at a rate of 4.50% per annum for a 10-year term. The REIT also refinanced ten Canadian mortgages totalling $28.5 million, at a weighted average interest rate of 7.74% per annum, with ten new mortgages totalling $62.9 million, bearing interest at a rate of 3.99% per annum for a 10-year term. In April 2012, the REIT has committed to refinance two Canadian mortgages totalling $11.9 million, bearing interest at a rate of 7.40% per annum, with two new mortgages totalling $27.0 million, bearing interest at a rate of 3.82% per annum, for an 8-year term.

OFF-BALANCE SHEET ITEMS

The REIT has co-owners and 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, 2012, such guarantees amounted to $73.8 million (December 31, 2011 - $74.3 million), expiring in 2016 and no amount has been provided for in the unaudited condensed combined interim 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, 2012, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk is approximately $112.6 million (December 31, 2011 - $113.4 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 unaudited condensed combined interim 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, 2012, the REIT recorded fees pursuant to this agreement of $5.0 million (March 31, 2011 - $3.5 million), of which $1.3 million (March 31, 2011 - $0.2 million) was capitalized to the cost of investment properties acquired, $0.4 million (March 31, 2011 - $0.4 million) was capitalized to properties under development and $0.3 million (March 31, 2011 - $2.7 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, 2012, a further amount of $1.1 million (March 31, 2011 - $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.

Pursuant to the above agreement, as at March 31, 2012, $2.7 million (December 31, 2011 - $3.5 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, 2012 is $0.4 million (March 31, 2011 - $0.3 million).

These transactions are measured at 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, 2012, 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 forward exchange contracts with a Canadian chartered bank, which effectively locks in the REIT's rate to exchange, U.S. dollars into Canadian dollars.

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

(in thousands of Canadian dollars)	**March 31, 2012**	December 31, 2011	September 30, 2011	June 30, 2011
Rentals from investment properties	**$186,286**	$178,174	$169,582	$155,861
Finance income	**624**	239	215	231
Net income (loss)	**16,756**	(61,338)	58,301	9,074
Total comprehensive income (loss)	**16,014**	(68,393)	72,478	7,586

	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 income(loss)	(31,314)	60,648	(12,107)	505,151
Total comprehensive income (loss)	(34,352)	55,787	(15,068)	509,619

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

Management believes the policies which are most subject to estimation and judgements are outlined below. For a detailed description of these and other accounting policies refer to note 2 of the December 31, 2011 combined financial statements of the Trusts.

Leases

The REIT's policy for property rental revenue recognition is described in note 2(h) of the December 31, 2011 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 the lessor, are operating or finance leases. The REIT has determined that all of its leases are operating leases.

Impairment of Investment Properties

The carrying amount of the REIT's investment properties and properties under development is reviewed at each reporting date to determine whether there is an indication of impairment. If such indicator exists, then the asset's recoverable amount is estimated. 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.

Impairment losses are recognized in net income (loss). Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 net income (loss) on a straight-line basis over the estimated useful life 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 are held to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. All of the REIT's commercial properties are investment properties 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 determines the fair values of the assets and liabilities including land, building and intangibles such as above- and below-market leases, in-place operating leases and tenant renewal value. The REIT expenses transaction costs on business combinations and capitalizes transaction costs if it is an asset acquisition.

Income Tax

During the second quarter of 2010, the REIT completed the necessary restructuring to qualify as a real estate investment trust. The REIT will not be subject to the SIFT Rules provided it continues to meet prescribed conditions under the Tax Act relating to the nature of its assets and revenue (the "REIT Conditions") at all times throughout a taxation year. Accordingly, no provision for current or deferred income taxes has been recorded by the REIT at March 31, 2012 in respect of its Canadian entities.

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. Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which these tax benefits can be utilized. Deferred tax assets have not been recognized in respect of U.S. Holdco because it is not probable that future taxable profit will be available against which U.S. Holdco can utilize these tax benefits.

DISCLOSURE CONTROLS AND PROCEDURES ("DC&P")

Each Trust's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") has designed, or caused to be designed under their direct supervision, the applicable Trust's DC&P (as defined in National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), adopted by the Canadian Securities Administrators) to provide reasonable assurance that: (i) material information relating to the applicable Trust, 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 unaudited condensed combined interim financial statements and MD&A were reviewed and approved by the REIT's Audit Committee and the Board of Trustees prior to this publication.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of each Trust has reviewed its internal control over financial reporting as part of the conversion from previous Canadian GAAP to IFRS. The most significant change to each Trust's 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. No changes were made to the design of either Trust's internal control over financial reporting during the three months ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Trusts' internal control over financial reporting

Each Trust's management, including the CEO and CFO, does not expect that the applicable Trust's 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, Hess Corporation and TransCanada PipeLines Limited. 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 BBB high.

Interest and Other Debt-Related 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's Declaration of Trust restricts total indebtedness permitted on the portfolio.

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" below. 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.

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 North Block budget, of approximately $1.66 billion (including capitalized interest), is pre-leased, on a triple net basis, to Encana Corporation for an initial term of 25 years. Any delay in the delivery of the tranches will result in a delay cost of $1.67 per square foot per month. The estimated delay cost of approximately $29.2 million will be payable by way of a credit against Encana Corporation's rent due. The REIT is currently bearing the risk for construction overruns and project delays. To mitigate this, the REIT has entered into fixed price contracts amounting to approximately 97% of the hard cost budget. The REIT is also at risk for interest rate fluctuations on this project during the construction period. To mitigate this risk, the REIT entered into an interest rate swap which is intended to limit the interest rate to an effective annual rate of 4.65%.

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. The leases for 23.1% of the REIT's total leasable area will expire in the next 5 years.

Currency Risk

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

The REIT is exposed to foreign exchange fluctuations as a result of the U.S. Holdco Notes being denominated in U.S. dollars.

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.

Unit Prices

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

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

Availability of Cash for Distributions

The 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.

Ability to Access Capital Markets

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

Tax Risk

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

The Tax Act contains legislation (the "SIFT Rules") affecting the tax treatment of "specified investment flow-through" ("SIFT") trusts. A SIFT includes a publicly-traded trust. 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 Tax Act. The REIT completed the necessary tax restructuring to qualify as a real estate investment trust effective June 30, 2010.

Management of the REIT intends to conduct the affairs of the REIT so that it satisfies the REIT Conditions at all times; however, as the REIT's conditions include complex revenue and asset tests, no assurances can be provided that the REIT will in fact so qualify at any time. The REIT expects to continue to qualify as a real estate investment trust; however, should it no longer qualify it would not be able to flow through its taxable income to unitholders and the REIT would be subject to tax.

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, 2012, U.S. Holdco owed $151.5 million to Finance Trust and HRLP which is eliminated upon combination in 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 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 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.

On July 20, 2011, the Department of Finance announced proposed amendments to the provisions of the Tax Act concerning the income tax treatment of SIFTs, real estate investment trusts ("Real Estate Trusts") and publicly traded corporations. The proposed amendments include changes which impact publicly traded stapled securities of SIFTs, Real Estate Trusts and corporations. The proposals include amendments which will deny a deduction for payments made by another entity to a Real Estate Trust, or to a subsidiary of a Real Estate Trust. The stapled unit structure of the Trusts (TSX: HR.UN; HR.DB; HR.DB.B; HR.DB.C; HR.DB.D, HR.DB.E) does not involve the kinds of payments that are targeted by the proposed amendments. In particular, the REIT does not receive interest or other income from Finance Trust. Finance Trust only receives interest income from a U.S. corporation which is a wholly owned subsidiary of the REIT. Based on the information available in the Department of Finance's press release, the Trusts expect that the amendments will not affect the Stapled Unit structure. Detailed draft legislation was not released by the government as at May 15, 2012, but will be reviewed by the REIT as soon as it is released.

Tax Consequences to U.S. Holders

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

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

Dilution

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

Unitholder Liability

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

Redemption Right

Unitholders are entitled to have their units redeemed at any time on demand. It is anticipated that this redemption right will not be the primary mechanism for unitholders to liquidate their investments. The aggregate redemption price payable by the Trusts is subject to limitations. In certain circumstances, the REIT's Declaration of Trust provides for the *in specie* distributions of notes of H&R Portfolio LP Trust in the event of redemption of units of the REIT that are part of the Stapled Units. The notes which may be distributed *in specie* to unitholders in connection with a redemption will not be listed on any stock exchange, no established market is expected to develop for such notes and they may be subject to resale restrictions under applicable securities laws.

Debentures

The likelihood that purchasers of the 2013, 2014, 2016, 2017 and 2020 convertible debentures and the Series A, B, C, D and E 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 May 10, 2012, there were 180,999,221 Stapled Units issued and outstanding.

As at March 31, 2012, the maximum number of Stapled Units authorized to be granted under the REIT's Unit Option Plan was 18,000,000. Of this amount, 9,924,320 had been granted and 6,552,167 had been exercised and expired. As at May 10, 2012, there were 3,372,153 options to purchase Stapled Units outstanding of which 1,015,835 are fully vested.

The following table lists the principal outstanding balance of the REIT's convertible debentures as at May 10, 2012 and the number of Stapled Units required to convert the convertible debentures to equity:

Convertible Debentures	Principal outstanding as at May 10, 2012	Maximum number of Stapled Units issuable
2013 6.65% Debentures	$114.8 million	4,967,979
2014 6.75% Debentures	22.5 million	1,606,535
2016 4.50% Debentures	169.3 million	8,909,473
2017 6.00% Debentures	100.0 million	4,254,893
2020 5.90% Debentures	75.0 million	2,918,287

SUBSEQUENT EVENTS

a) In April 2012, the REIT completed a public offering of $175.0 million of 4.45% Series F senior debentures due March 2, 2020.

b) In April 2012, the REIT obtained an additional $37.0 million non-recourse mortgage bearing interest at 4.14% per annum for a 10-year term on the Corus Quay property.

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.