Second Quarter 2009 Report to Unitholders

Financial Results
The following results are presented on a combined basis for H&R Real Estate Investment Trust ("H&R REIT") and H&R Finance Trust (collectively, "H&R"). The following table includes non-GAAP (Generally Accepted Accounting Principles) information that should not be construed as an alternative to net earnings or cash provided by operations and may not be comparable to similar measures presented by other issuers as there is no standardized meaning of AFFO under GAAP. Financial information for the period ending after October 1, 2008 is presented herein on a combined and/or stapled basis. Financial information for the period ended prior to October 1, 2008 is presented for H&R REIT.

	3 months ended June 30		6 months ended June 30	
	2009	2008	2009	2008
AFFO (millions) *	$58.4	$51.9	$119.6	$105.9
AFFO per stapled unit (basic)	$0.40	$0.38	$0.81	$0.77
Cash distributions (millions)	$26.6	$50.1	$53.2	$98.9
Cash distributions per stapled unit	$0.18	$0.36	$0.36	$0.72

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

	3 months ended June 30		6 months ended June 30	
	2009	2008	2009	2008
Rentals from income properties (millions)	$149.8	$149.5	$306.9	$295.8
Net earnings (millions) *	$18.9	$33.0	$41.0	$72.6
Net earnings per stapled unit (basic)	$0.13	$0.25	$0.29	$0.56
Cash provided by operations (millions) *	$50.2	$50.4	$120.2	$121.7

* Reconciliations of AFFO to net earnings and to cash provided by operations are included in H&R's MD&A.

As at June 30, 2009, H&R reported financial ratios of 55.4% for debt to gross book value versus 56.5% as at December 31, 2008, and 49.5% for non-recourse debt to total debt (51.4% at December 31, 2008).

The Bow Development Project
H&R REIT is currently building The Bow, a two million square foot office building in Calgary's downtown financial district. EnCana Corporation will be head-leasing the entire office tower and all underground parking spaces on a triple-net basis for an initial term of 25 years. As at June 30, 2009, H&R REIT had incurred approximately $511 million of the $1.33-billion budget (excluding capitalized interest costs for accounting purposes). With the recent closing of a convertible debenture offering, H&R has secured all of the funds required for completion of this trophy office development.

Capital Transaction Highlights
Subsequent to June 30, 2009, H&R completed the following capital transactions:

- H&R REIT received $85-million, for a 5-year, first mortgage financing at a fixed interest rate of 6.5% for its newly completed Bell Corporate Centre Phase III expansion in Mississauga, Ontario;
- The REIT closed a public offering of $150 million of 6.75% Series B convertible unsecured subordinated debentures maturing December 31, 2014.
- H&R REIT secured a commitment to renew its general operating facility of $300 million with a Canadian national bank for a two-year period due August 15, 2011.

We are confident that the difficulties we have encountered with restricted credit markets and US bankruptcies are largely behind us. We have successfully secured all the financing required to complete our trophy development of The Bow, and completed a variety of capital transactions that have increased our liquidity and strengthened our balance sheet that provides us with the financial capacity to pursue additional attractive investment opportunities as they arise.

Tom Hofstedter
President and Chief Executive Officer
August 13, 2009

Unaudited Combined Financial Statements of

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

For the three and six months ended June 30, 2009 and 2008

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

Unaudited Combined Balance Sheets
(In thousands of dollars)

	June 30 2009	December 31 2008
	(Unaudited)	(note 2)
Assets		
Income properties (note 3)	**$ 4,329,526**	$ 4,516,830
Properties under development (note 4)	**631,607**	590,196
Accrued rent receivable	**120,612**	117,253
Mortgages and amount receivable	**85,773**	90,071
Other assets (note 5)	**109,151**	85,600
Assets related to discontinued operations (note 20)	**170,459**	29,870
	$ 5,447,128	$ 5,429,820
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 6)	**$ 2,931,808**	$ 3,151,511
Debentures payable (note 7)	**293,454**	104,820
Bank indebtedness (note 8)	**19,563**	112,934
Intangible liabilities	**61,174**	64,302
Accounts payable and accrued liabilities	**161,971**	129,314
Future income tax liability	**141,099**	133,300
Liabilities related to discontinued operations (note 20)	**112,812**	8,151
	3,721,881	3,704,332
Non-controlling interest	**75,106**	75,367
Unitholders' equity (notes 9 and 10)	**1,650,141**	1,650,121
Commitments and contingencies (note 21)		
Subsequent events (note 24)		
	$ 5,447,128	$ 5,429,820

See accompanying notes to consolidated financial statements.

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	**2009**	2008
		(note 2)		(note 2)
Operating revenue:				
Rentals from income properties (note 11)	**$ 149,772**	$ 149,489	**$ 306,914**	$ 295,791
Mortgage interest and other income	**1,175**	643	**3,000**	1,239
	150,947	150,132	**309,914**	297,030
Operating expenses:				
Property operating costs	**46,193**	48,478	**98,242**	95,628
Interest (note 12)	**44,937**	42,795	**89,090**	85,214
Depreciation and amortization (note 13)	**31,242**	31,171	**63,393**	60,849
	122,372	122,444	**250,725**	241,691
Net property operating income (note 19)	**28,575**	27,688	**59,189**	55,339
Impairment loss on income properties (note 3)	**(6,763)**	-	**(14,992)**	-
Unrealized gain on swap derivatives (note 8(b))	**5,767**	-	**5,767**	-
Unrealized loss on foreign exchange	**(12,092)**	(1,175)	**(7,197)**	(1,175)
Trust expenses	**(1,957)**	(1,669)	**(3,820)**	(3,164)
Net earnings before income taxes, non-controlling interest and discontinued operations	**13,530**	24,844	**38,947**	51,000
Income taxes (note 22)	**(1,637)**	(3,686)	**(6,225)**	(6,080)
Net earnings before non-controlling interest and discontinued operations	**11,893**	21,158	**32,722**	44,920
Non-controlling interest	**(985)**	(1,065)	**(1,330)**	(2,295)
Net earnings from continuing operations	**10,908**	20,093	**31,392**	42,625
Net earnings from discontinued operations (note 20)	**7,993**	12,880	**9,607**	29,961
Net earnings	**$ 18,901**	$ 32,973	**$ 40,999**	$ 72,586
Basic net earnings per unit (note 14):				
Continuing operations	**$ 0.08**	$ 0.15	**$ 0.22**	$ 0.33
Discontinued operations	**0.05**	0.10	**0.07**	0.23
	$ 0.13	$ 0.25	**$ 0.29**	$ 0.56
Diluted net earnings per unit (note 14):				
Continuing operations	**$ 0.08**	$ 0.15	**$ 0.21**	$ 0.33
Discontinued operations	**0.05**	0.10	**0.06**	0.23
	$ 0.13	$ 0.25	**$ 0.27**	$ 0.56

See accompanying notes to consolidated financial statements.

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

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

UNITHOLDERS' EQUITY	Value of Units	Accumulated Net Earnings	Accumulated Distributions	Equity Component of Warrants and Debentures	Accumulated Other Comprehensive Loss (note 10)	Total
Unitholders' equity, December 31, 2007	$ 1,829,111	$ 654,348	$ (941,613)	$ -	$ (85,210)	$ 1,456,636
Adjustment to unitholders' equity to comply with new accounting standard (note 2)	-	(8,824)	-	-	-	(8,824)
Unitholders' equity, January 1, 2008	1,829,111	645,524	(941,613)	-	(85,210)	1,447,812
Proceeds from issuance of units (note 9)	195,787	-	-	-	-	195,787
Issue costs	(7,369)	-	-	-	-	(7,369)
Equity component from issuance of convertible debentures, net of costs	-	-	-	6,767	-	6,767
Net earnings	-	72,586	-	-	-	72,586
Cash distributions to unitholders	-	-	(93,924)	-	-	(93,924)
Other comprehensive income	-	-	-	-	7,749	7,749
Unitholders' equity, June 30, 2008	2,017,529	718,110	(1,035,537)	6,767	(77,461)	1,629,408
Proceeds from issuance of units (note 9)	149,116	-	-	-	-	149,116
Issue costs	(412)	-	-	-	-	(412)
Exchange of Class B units of HRLP	21,745	-	-	-	-	21,745
Net earnings	-	25,120	-	-	-	25,120
Cash distributions to unitholders	-	-	(100,686)	-	-	(100,686)
Non-cash distribution as a return of capital, pursuant to the Plan of Arrangement	-	-	(132,500)	-	-	(132,500)
Unit-based compensation	74	-	-	-	-	74
Other comprehensive income	-	-	-	-	58,256	58,256
Unitholders' equity, December 31, 2008	2,188,052	743,230	(1,268,723)	6,767	(19,205)	1,650,121
Proceeds from issuance of units (note 9)	**6,522**	**-**	**-**	**-**	**-**	**6,522**
Issue costs	**(454)**	**-**	**-**	**-**	**-**	**(454)**
Issuance of warrants, net of costs (note 7)	**-**	**-**	**-**	**8,533**	**-**	**8,533**
Net earnings	**-**	**40,999**	**-**	**-**	**-**	**40,999**
Cash distributions to unitholders	**-**	**-**	**(51,193)**	**-**	**-**	**(51,193)**
Unit-based compensation (note 9(a))	**181**	**-**	**-**	**-**	**-**	**181**
Other comprehensive income	**-**	**-**	**-**	**-**	**(4,568)**	**(4,568)**
Unitholders' equity, June 30, 2009	**$ 2,194,301**	**$ 784,229**	**$ (1,319,916)**	**$ 15,300**	**$ (23,773)**	**$ 1,650,141**

COMPREHENSIVE INCOME	Three Months Ended June 30 **2009**	Three Months Ended June 30 2008 (note 2)	Six Months Ended June 30 **2009**	Six Months Ended June 30 2008 (note 2)
Net earnings	**$ 18,901**	$ 32,973	**$ 40,999**	$ 72,586
Unrealized gain (loss) on translation of self-sustaining foreign operations	**(10,267)**	(1,724)	**(5,839)**	10,011
Gain (loss) on derivatives designated as cash flow hedges	**-**	1,595	**-**	(1,777)
Transfer of realized loss on cash flow hedges to net earnings	**185**	43	**361**	146
Future income taxes (note 22)	**970**	16	**910**	(631)
Other comprehensive income (loss)	**(9,112)**	(70)	**(4,568)**	7,749
Comprehensive income	**$ 9,789**	$ 32,903	**$ 36,431**	$ 80,335

See accompanying notes to consolidated financial statements.

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	**2009**	2008
Cash provided by (used in):		(note 2)		(note 2)
Operations:				
Net earnings	**$ 18,901**	$ 32,973	**$ 40,999**	$ 72,586
Items not affecting cash:				
Rent amortization (notes 11 and 20)	**1,109**	288	**2,038**	602
Depreciation and amortization (notes 13 and 20)	**31,323**	32,046	**64,536**	62,264
Gain on sale of income properties (note 20)	**(6,441)**	(10,221)	**(6,865)**	(24,628)
Impairment loss on income properties (note 3)	**6,763**	-	**14,992**	-
Future income taxes (note 22)	**1,544**	2,986	**6,059**	4,769
Unrealized gain on swap derivatives (note 8(b))	**(5,767)**	-	**(5,767)**	-
Effective interest rate accretion (notes 12 and 20)	**1,347**	61	**2,376**	61
Unrealized loss on foreign exchange	**12,092**	1,175	**7,177**	1,175
Other	**(1,145)**	242	**(1,082)**	788
Net earnings attributable to non-controlling interest	**1,290**	1,736	**1,697**	3,894
Change in other non-cash operating items (note 15)	**(10,783)**	(10,846)	**(6,009)**	203
	50,233	50,440	**120,151**	121,714
Financing:				
Bank indebtedness	**(111,724)**	(220,496)	**(93,371)**	(159,659)
Mortgages payable:				
New mortgages payable	**-**	95,968	**-**	99,939
Principal repayments	**(23,025)**	(22,475)	**(52,183)**	(56,491)
Proceeds from issuance of debentures payable	**198,629**	110,484	**198,629**	110,484
Proceeds from issuance of units, net	**1,536**	176,398	**6,068**	188,418
Distributions to unitholders (note 9(b))	**(25,623)**	(47,595)	**(51,193)**	(93,924)
Distributions to non-controlling interest	**(979)**	(2,511)	**(1,958)**	(5,022)
	38,814	89,773	**5,992**	83,745
Investments:				
Properties under development	**(94,984)**	(68,869)	**(147,707)**	(158,005)
Income properties:				
Net proceeds on disposition of income properties	**5,507**	77,369	**25,714**	115,665
Acquisitions and capital expenditures	**(2,531)**	(1,528)	**(2,653)**	(24,832)
Mortgages and amounts receivable	**211**	(33)	**-**	(68)
Restricted cash (note 5)	**2,932**	1,153	**(2,704)**	5,052
	(88,865)	8,092	**(127,350)**	(62,188)
Increase (decrease) in cash and cash equivalents	**182**	148,305	**(1,207)**	143,271
Cash and cash equivalents, beginning of period	**16,294**	7,503	**17,683**	12,537
Cash and cash equivalents, end of period (notes 5 and 20)	**$ 16,476**	$ 155,808	**$ 16,476**	$ 155,808
Supplemental cash flow information:				
Interest paid	**$ 54,953**	$ 52,646	**$ 101,305**	$ 100,049
Supplemental disclosure of non-cash financing and investing activities:				
Acquisitions of income properties through assumption of mortgages payable	**-**	-	**-**	56,182
Release of mortgage obligation upon lender consent	**-**	-	**(4,663)**	-
Non-cash amounts receivable on disposition of income properties	**-**	82,575	**-**	82,575
Non-cash assumption of mortgage payable on disposition	**11,901**	8,597	**11,901**	8,597
Non-cash issuance of warrants (note 7)	**8,533**	-	**8,533**	-
Non-cash transfer of property from properties under development to income properties	**-**	-	**117,007**	-

See accompanying notes to consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

- A support agreement between the REIT and Finance Trust ensures that, until such time as an event of uncoupling occurs, when units are issued by the REIT, units must also be issued by Finance Trust simultaneously so as to maintain the stapled unit structure;
- The sole activity of Finance Trust is to provide capital funding to U.S. Holdco; and
- The investment activities of Finance Trust are restricted in its Declaration of Trust to providing such funding to U.S. Holdco and to make temporary investments of excess funds.

1. Significant accounting policies:

In the opinion of the Trusts, the accompanying interim combined financial statements contain all the adjustments necessary to present fairly the financial position as at June 30, 2009 and December 31, 2008 and the results of operations and cash flows for the three and six months ended June 30, 2009 and 2008. Canadian generally accepted accounting principles ("GAAP") requires additional disclosures for annual financial statements and accordingly, these consolidated financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2008.

The results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results for the full year.

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

2. Change in accounting policies:

(a) *Goodwill and intangible assets*

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

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

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

Balance Sheet

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

Statements of Earnings

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

Statement of Cash Flows

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

(b) *Credit risk and the fair value of financial assets and financial liabilities*

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

3. Income properties:

June 30, 2009	**Cost**	**Accumulated depreciation and amortization**	**Net book value**
Land	**$ 907,353**	**$ -**	**$ 907,353**
Buildings	**3,395,154**	**(414,934)**	**2,980,220**
Building improvements (note 2)	**20,535**	**(6,048)**	**14,487**
Paving and equipment	**136,652**	**(53,708)**	**82,944**
	4,459,694	**(474,690)**	**3,985,004**
Intangible assets	**460,244**	**(115,722)**	**344,522**
	$ 4,919,938	**$ (590,412)**	**$ 4,329,526**

December 31, 2008 (note 2)	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 927,554	$ -	$ 927,554
Buildings	3,482,780	(383,557)	3,099,223
Building improvements (note 2)	13,519	(4,377)	9,142
Paving and equipment	149,926	(49,835)	100,091
	4,573,779	(437,769)	4,136,010
Intangible assets	486,676	(105,856)	380,820
	$ 5,060,455	$ (543,625)	$ 4,516,830

During the six months ended June 30, 2009, four income properties occupied by the tenants, Circuit City and Bruno's Supermarkets, LLC, were impaired by $14,992 following a test for impairment triggered by the tenants vacating the premises following their bankruptcy announcements.

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

4. Properties under development:

Project	Address	June 30 2009	December 31 2008
The Bow (note 21(a))	5th Ave. at Centre Street, Calgary, AB	**$ 558,042**	$ 402,031
Bell Phase III	Eglinton Ave. & Dixie Rd., Mississauga, ON	**-**	117,007
Heart Lake	Mayfield West Business Park, Caledon, ON	**39,745**	38,471
Airport Road	7900 Airport Road, Brampton, ON	**33,820**	32,687
		$ 631,607	$ 590,196

Bell Phase III was completed and ready for its intended use in January 2009 and was transferred to income properties at that time.

5. Other assets:

	June 30 2009	December 31 2008
Deferred leasing expenses	**$ 27,771**	$ 28,276
Tenant inducements	**25,626**	14,997
Prepaid expenses and sundry assets	**22,531**	13,652
Cash and cash equivalents *	**15,949**	17,212
Restricted cash	**7,208**	4,504
Swap derivatives (note 8(b))	**5,767**	-
Accounts receivable	**4,299**	6,959
	$ 109,151	$ 85,600

* Cash and cash equivalents at June 30, 2009 includes cash on hand of $7,991 (December 31, 2008 - $14,896), bank term deposits of $7,958 (December 31, 2008 - $2,316) at rates of interest varying between 0.09% to 1.95% (December 31, 2008 – 0.75% to 2.05%).

6. Mortgages payable:

The mortgages payable are secured by income properties and letters of credit in certain cases, bear fixed interest with a contractual weighted average rate of 6.2% (December 31, 2008 – 6.2%) per annum and mature between 2009 and 2035. Included in mortgages payable at June 30, 2009 are U.S. dollar denominated mortgages of U.S. $844,100 (December 31, 2008 - U.S. $861,232). The Canadian equivalents of these amounts are $979,156 (December 31, 2008 - $1,050,703).

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

Future principal mortgage payments are as follows:

Years ending December 31:	
2009 *	$ 84,158
2010	117,085
2011	170,585
2012	376,895
2013	196,782
Thereafter	1,804,922
	2,750,427
Mortgages payable due on demand **	177,857
Deferred financing cost and mark-to-market adjustment arising on acquisitions	(2,228)
Mortgages payable on assets sold (contractual amount $5,791)	5,752
	$ 2,931,808

* for the balance of the year

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

7. Debentures payable:

				June 30 2009	December 31 2008
	Contractual interest rate	**Effective interest rate**	**Face value**	**Carrying value**	Carrying value
2013 Convertible Debentures	6.65%	9.10%	$ 115,000	**$ 105,733**	$ 104,820
Non- Convertible Debentures	11.50%	12.90%	$ 200,000	**$ 187,721**	$ -
				$ 293,454	$ 104,820

In April 2009, the REIT issued $200,000 of unsecured debentures (the "Non-Convertible Debentures") bearing interest at the annual contractual rate of 11.5% and an effective interest rate of 12.9%. The Non-Convertible Debentures mature on April 24, 2014, with interest payable semi-annually on June 30 and December 31. The Non-Convertible Debentures are not redeemable on or before April 24, 2013, except upon the satisfaction of certain conditions upon the occurrence of a change of control. After April 24, 2013 and prior to the maturity date thereof, the Non-Convertible Debentures are redeemable in whole or in part at the option of the REIT at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. Upon a change of control, the holders of the Non-Convertible Debentures have the right to require the REIT to purchase the Non-Convertible Debentures at 101% of the principal amount plus accrued and unpaid interest.

In addition, the REIT issued, simultaneously with the Non-Convertible Debentures, 28,571,429 warrants to purchase Stapled Units at an exercise price of $7.00 per Stapled Unit. Such warrants are exercisable until April 24, 2014.

The REIT accounted for the Non-Convertible Debentures by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability that is not issued simultaneously with warrants and allocated such amounts (net of associated issue costs) to the issuance of the Non-Convertible Debentures. The aggregate proceeds realized from the issuance of the Non-Convertible Debentures and warrants (net of issue costs), less the amount allocated to the Non-Convertible Debentures, has been allocated to the issue of the warrants and is classified as equity.

On issuance, the REIT recorded a liability of $187,447, net of issue costs of $1,288, and equity, which represents the warrants issued to purchase Stapled Units, of $11,183, net of issue costs of $82, with a further reduction of $2,650 representing the initial deferred tax liability related to issuance of the Non-Convertible Debentures. Interest expense is recorded as a charge to income and is calculated at an effective rate with the difference between the coupon rate and the effective rate being credited to the debt component of the Non-Convertible Debentures such that, at maturity, the debt component is equal to the face value of the then outstanding Non-Convertible Debenture.

8. Bank indebtedness:

The REIT has the following three facilities:

(a) A general operating facility which is secured by fixed charges over certain income properties due on August 15, 2009. The total facility at June 30, 2009 is $296,592 (December 31, 2008 - $286,564) and can be drawn in either Canadian or U.S. dollars (to a maximum of $100,000 Canadian for U.S. borrowings). The amount available at June 30, 2009, after taking into account the bank indebtedness drawn of $19,563 (December 31, 2008 - $112,934) and the outstanding letters of credit and other items, is $229,177 (December 31, 2008 - $125,536). The Canadian dollar bank indebtedness bears interest at rates approximating the prime rate of a Canadian chartered bank. At June 30, 2009, the Canadian prime interest rate was 2.25% (December 31, 2008 – 3.5%) per annum.

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

In August 2009, the REIT secured a commitment to renew the general operating facility of $300,000 for a two-year period due August 15, 2011.

Included in bank indebtedness at June 30, 2009 is U.S. $16 (December 31, 2008 - U.S. $7,600). The Canadian equivalents of these amounts are $19 (December 31, 2008 - $9,272). The U.S. dollar bank indebtedness bears interest at LIBOR rates.

(b) A secured construction financing facility for the REIT's development project, the Bow (the "Bow Facility"). The facility consists of a non-revolving term construction credit facility in the

amount of $425,000 available by way of prime loans, bankers' acceptances and/or letters of credit. Borrowing under this facility is subject to the satisfaction of certain conditions including:

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

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

(iii) The REIT having in place a committed revolving credit facility of not less than $300,000 (subject to reduction to $200,000 in certain circumstances) with a maturity date of not less than 11 months from the date of the initial borrowing under the Bow Facility.

These conditions have not been satisfied as at June 30, 2009 nor has any amount been drawn upon the credit facility.

The initial maturity date of the facility is October 22, 2012.

The REIT entered into an interest rate swap that is intended to limit its interest rate exposure during the term of the Bow construction financing facility. The expected annual effective interest rate for this facility, including the cost of the swap, is 6.90%. The fair value of this interest rate swap as at June 30, 2009 is $5,767 and has been recorded as an asset (note 5) resulting in an unrealized gain recognized in earnings for the three and six months ended June 30, 2009.

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

9. Unitholders' equity:

The following number of units are issued and outstanding:

As at December 31, 2007	135,449,995
Issued on June 6, 2008 (at a price of $19.75 per unit)	8,734,250
Issued under the Distribution Reinvestment Plan and Unit Purchase Plan (the "DRIP")	1,226,987
	145,411,232
Units held by a subsidiary	(6,974,555)
As at June 30, 2008	138,436,677
As at June 30, 2008	145,411,232
Issued under the DRIP	1,621,619
	147,032,851
Units held by a subsidiary	(5,437,565)
As at December 31, 2008	141,595,286
As at December 31, 2008	147,032,851
Issued under the DRIP	886,879
Units held by a subsidiary	(5,437,565)
As at June 30, 2009	142,482,165

(a) Unit Option Plan:

As at June 30, 2009, a maximum of 8,800,000 units were authorized to be issued to the REIT's officers, employees and certain trustees. The exercise price of each option approximated the market price of the REIT's units on the date of grant. The options vested at 33.3% per year from the grant date, being fully vested after three years, and expire ten years after the date of the grant.

During the six months ended June 30, 2009, 600,000 options were granted (June 30, 2008 - nil). The fair value of the unit options used to compute compensation expense is the estimated fair value of each option grant on the grant date. This was calculated using an option pricing model with the following weighted average assumptions: expected distribution yield is 7.27%; expected volatility is 45.00%; risk free interest rate is 1.83%; and expected option life is four years from the date of grant. The weighted average grant-date fair value of the options is $1,334 resulting in total compensation cost of $181 (June 30, 2008 - nil) recognized in income and charged to unitholders' equity for the three and six months ended June 30, 2009.

A summary of the status of the unit option plan as at June 30, 2009 and 2008 and the changes during the six month period ended on those dates are as follows:

	2009		2008	
	Units	**Weighted average exercise price**	Units	Weighted average exercise price
Outstanding, beginning of period	**2,454,666**	**$ 13.73**	1,854,666	$ 12.81
Granted	**600,000**	**9.30**	-	-
Outstanding, at June 30	**3,054,666**	**$ 12.86**	1,854,666	$ 12.81
Options exercisable, at June 30	**1,854,666**	**$ 12.81**	1,854,666	$ 12.81

The options outstanding at June 30, 2009 are exercisable at varying prices ranging from $9.30 to $16.56 (June 30, 2008 - $12.01 to $13.36) with a weighted average remaining life of 5.1 years (June 30, 2008 – 3.6 years). The vested options are exercisable at varying prices ranging from $12.01 to $13.36 (June 30, 2008 - $12.01 to $13.36) with a weighted average remaining life of 2.6 years (June 30, 2008 – 3.6 years).

(b) Distributions:

Under the REIT's Declaration of Trust, the income of the REIT shall be distributed as determined by the trustees. Notwithstanding the foregoing, the total amount of income of the REIT to be distributed to unitholders, due and payable on or before December 31 of any calendar year, shall not be less than the amount necessary to ensure that the REIT will not be liable to pay income tax under Part I of the Income Tax Act (Canada) for that year, after all permitted deductions under such act have been taken (or authorized to be taken by the trustees), and any such payment shall be considered to have been declared by the trustees and to have been payable no later than December 31 of that year. For the three months ended June 30, 2009, the REIT declared per unit distributions of $0.153 (June 30, 2008 - $0.36) and for the six months ended June 30, 2009, the REIT declared per unit distributions of $0.306 (June 30, 2008 - $0.72).

Pursuant to the Finance Trust's Declaration of Trust, unitholders of Finance Trust have a right to receive all of the Distributable Cash of Finance Trust, as defined in Finance Trust's 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 $0.027 for the three months ended June 30, 2009 and paid per unit distributions of $0.054 for the six months ended June 30, 2009.

(c) Short Form Base Shelf Prospectus:

On May 11, 2009, the Trusts issued a base shelf prospectus allowing the Trusts to offer and issue the following securities: (i) unsecured debt securities; (ii) subscription receipts exchangeable for Stapled Units and/or other securities of the Trusts; (iii) warrants exercisable to acquire Stapled Units and/or other securities of the Trusts; and (iv) securities comprised of more than one of Stapled Units, debt securities, subscription receipts and/or warrants offered together as a unit, or any combination thereof having an offer price of up to $500,000 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. On July 17, 2009, the Trusts filed Amendment No. 1 to the base shelf prospectus dated May 11, 2009, to provide that the securities that may be offered and issued thereunder include senior unsecured debt securities of the REIT.

(d) Equity Distribution Agreement:

On June 5, 2009, the Trusts entered into an equity distribution agreement with Canaccord Capital Corporation who will act as agent for the issuance and sale over an approximate two year period, of Stapled Units up to a maximum of approximately $150,000 by way of “at-the-market distributions” over the Toronto Stock Exchange (“TSX”). The timing of any sale over such approximate two year period, and the number of Stapled Units actually sold during such period, are at the discretion of the Trusts. Sales of Stapled Units, if any, pursuant to the agreement may be made in transactions that are deemed to be “at-the-market distributions” as defined in National Instrument 44-102-Shelf Distributions, including sales made directly on the TSX or other existing trading markets for the Stapled Units. The Stapled Units will be distributed at market prices prevailing at the time of sale of such Stapled Units (if any) and, as a result, prices may vary between purchasers and during the period of distribution.

10. Accumulated other comprehensive loss:

Accumulated other comprehensive loss on:	**Cash flow hedges**	**Translation of foreign operations**	**Total**
Balance as at December 31, 2007	$ (6,419)	$ (78,791)	$ (85,210)
Loss on derivatives designated as cash flow hedges	(1,777)		(1,777)
Transfer of realized loss on cash flow hedges to net earnings	146		146
Future income taxes (note 22)	(631)		(631)
Unrealized gain on translation of self sustaining foreign operation		10,011	10,011
Balance as at June 30, 2008	(8,681)	(68,780)	(77,461)
Loss on derivatives designated as cash flow hedges			-
Transfer of realized loss on cash flow hedges to net earnings	392		392
Future income taxes	19		19
Unrealized gain on translation of self sustaining foreign operation		30,504	30,504
Transfer of realized loss on foreign exchange to net earnings		27,341	27,341
Balance as at December 31, 2008	(8,270)	(10,935)	(19,205)
Transfer of realized loss on cash flow hedges to net earnings	**361**	**-**	**361**
Future income taxes (note 22)	**910**	**-**	**910**
Unrealized loss on translation of self sustaining foreign operation	**-**	**(5,839)**	**(5,839)**
Balance as at June 30, 2009	**$ (6,999)**	**$ (16,774)**	**$ (23,773)**

11. Rentals from income properties:

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Rentals from income properties	**$ 148,438**	$ 144,907	**$ 302,742**	$ 287,394
Straight-lining of contractual rent	**2,446**	4,864	**6,125**	8,987
Rent amortization of tenant inducements	**(846)**	(494)	**(1,383)**	(984)
Rent amortization of above- and below-market rents	**(266)**	212	**(570)**	394
	$ 149,772	$ 149,489	**$ 306,914**	$ 295,791

12. Interest:

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Contractual interest on mortgages payable	**$ 45,627**	$ 46,327	**$ 92,465**	$ 90,833
Contractual interest on debentures payable	**6,191**	507	**8,077**	507
Effective interest rate accretion	**1,227**	284	**2,171**	778
Amortization of mortgage premium	**(424)**	(441)	**(836)**	(873)
Bank interest and charges	**222**	1,475	**1,718**	3,153
	52,843	48,152	**103,595**	94,398
Capitalized interest	**(7,906)**	(5,357)	**(14,505)**	(9,184)
	$ 44,937	$ 42,795	**$ 89,090**	$ 85,214

13. Depreciation and amortization:

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
		(note 2)		(note 2)
Depreciation of income properties	**$ 23,664**	$ 23,521	**$ 48,042**	$ 45,840
Amortization of intangible assets on acquisitions	**6,199**	6,336	**12,576**	12,597
Amortization of deferred leasing expenses	**1,379**	1,314	**2,775**	2,412
	$ 31,242	$ 31,171	**$ 63,393**	$ 60,849

14. Net earnings per unit:

	Three months ended June 30		Six months ended June 30	
	2009	2008 (note 2)	**2009**	2008 (note 2)
Net earnings	**$ 18,901**	$ 32,973	**$ 40,999**	$ 72,586
Add net earnings attributable to non-controlling interest	**1,290**	1,736	**1,697**	3,894
Diluted net earnings	**$ 20,191**	$ 34,709	**$ 42,696**	$ 76,480
The weighted average number of units outstanding was as follows:				
Basic units	**142,346,374**	131,697,501	**142,203,244**	130,203,260
Effect of dilutive securities:				
Unit option plan	**-**	645,174	**-**	638,365
Warrants (note 7)	**8,611,349**	-	**8,611,349**	-
Non-controlling interest conversion to units	**5,437,565**	6,974,555	**5,437,565**	6,974,555
Diluted units	**156,395,288**	139,317,230	**156,252,158**	137,816,180
Net earnings per unit:				
Basic	**$ 0.13**	$ 0.25	**$ 0.29**	$ 0.56
Diluted	**$ 0.13**	$ 0.25	**$ 0.27**	$ 0.56

The convertible debentures are anti-dilutive for the three and six months ended June 30, 2009 and 2008 and the unit option plan is anti-dilutive for the three and six months ended June 30, 2009; therefore, the potential conversion into units has not been included in the calculation of diluted units.

15. Change in other non-cash operating items:

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Deferred expenses and tenant inducements	**$ (666)**	$ (2,589)	**$ (2,282)**	$ (3,969)
Accrued rent receivable	**(1,893)**	(5,270)	**(6,410)**	(10,070)
Prepaid expenses and sundry assets	**(6,861)**	(2,688)	**(8,868)**	4,754
Accounts receivable	**2,567**	518	**3,067**	266
Accounts payable and accrued liabilities	**(3,930)**	(817)	**8,484**	9,222
	$ (10,783)	$ (10,846)	**$ (6,009)**	$ 203

16. Capital risk management:

The REIT's primary objectives when managing capital are:

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

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

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

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

The REIT's level of indebtedness is subject to the limitations set out in its Declaration of Trust. The REIT is limited to a total indebtedness to gross book value ratio of 65% (provided that for this purpose "indebtedness" excludes the 2013 Convertible Debentures and U.S. Holdco notes payable to Finance Trust). As at June 30, 2009 this ratio was 53.7% (December 31, 2008 - 54.7%). Management uses this ratio as a key indicator in managing the REIT's capital.

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

		June 30 2009	December 31 2008
		(actual)	(actual)
(a) Maximum indebtedness to gross book value	65%	**53.7%**	54.7%
(b) Minimum debt service coverage ratio	1.2 : 1	**1.45 : 1**	1.35 : 1
(c) Minimum equity	$1,300,000	**$1,725,247**	$1,725,488

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

		June 30 2009	December 31 2008
		(actual)	(actual)
(a) Maximum indebtedness to gross book value	65%	**55.4%**	n/a
(b) Minimum debt service coverage ratio	1.2 : 1	**1.51 : 1**	n/a
(c) Minimum equity	$1,350,000	**$1,725,247**	n/a
(d) Maximum distributions	Limited to the lesser of $0.72 per unit annually or 60% of Funds From Operations	**$0.72**	n/a

Each of the terms above are defined within their respective facilities. As such, the calculated ratio for each covenant will differ between each facility.

The REIT's mortgage providers also have minimum limits on debt to service coverage ratios ranging from 1.10 to 1.50 as at June 30, 2009 and December 31, 2008. The REIT monitors these ratios and is in compliance with such external requirements.

17. Risk management:

Credit risk:

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

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

Liquidity risk:

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

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

The contractual obligations for mortgages payable is disclosed in note 6. The REIT also has contractual obligations for the 2013 Convertible Debentures of $115,000 maturing in 2013 and for the Non-Convertible Debentures of $200,000 maturing in 2014, both as described in note 7.

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

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

Market risk:

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

(a) *Currency risk:*

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

A 10 cent weakening of the U.S. dollar against the average Canadian dollar exchange rate of $1.21 for the six months ended June 30, 2009 would have decreased other comprehensive income by approximately $25,800 (June 30, 2008 - $29,000) and increased net earnings by approximately $1,700 (June 30, 2008 - $700). This analysis assumes that all the variables, in particular interest rates, remain constant (a 10 cent weakening of the Canadian dollar against the above currencies at June 30, 2009 would have had the equal but opposite effect).

(b) *Interest rate risk:*

The REIT is exposed to interest rate risk on its borrowings. It minimizes this risk by obtaining long-term fixed interest rate debt. At June 30, 2009, the percentage of fixed rate debt to total debt was 99.4% (December 31, 2008 - 96.7%). As at June 30, 2009, the REIT does not account for any of its fixed rate financial liabilities as held for trading. Therefore, a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments.

The bank indebtedness is subject to variable interest rates. An increase in interest rates of 100 basis points for the six months ended June 30, 2009 would have decreased net earnings by approximately $500 (June 30, 2008 - $700). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

18. Related party transactions:

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

During the three months ended June 30, 2009, the REIT recorded fees pursuant to this agreement of $3,431 (June 30, 2008 - $3,113), of which nil (June 30, 2008 - nil) was capitalized to the cost of the income properties acquired, $514 (June 30, 2008 - $369) was capitalized to properties under development and $371 (June 30, 2008 - $603) was capitalized to deferred leasing expenses.

Approximately 94% of these fees are recoverable from tenants. The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the three months ended June 30, 2009, a further amount of $1,050 (June 30, 2008 - $990) has been earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager. Of this amount, $1,050 (June 30, 2008 – nil) has been waived by the Property Manager and nil (June 30, 2008 - $990) has been expensed in the consolidated statement of earnings. The waiving of the incentive fee by the Property Manager is effective for the entire 2009 fiscal year.

During the six months ended June 30, 2009, the REIT recorded fees pursuant to this agreement of $6,970 (June 30, 2008 - $8,297), of which nil (June 30, 2008 - $514) was capitalized to the cost of the income properties acquired, $1,002 (June 30, 2008 - $956) was capitalized to properties under development and $1,228 (June 30, 2008 - $1,086) was capitalized to deferred leasing expenses. Approximately 97% of these fees are recoverable from tenants. The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the six months ended June 30, 2009, a further amount of $2,240 (June 30, 2008 - $2,020) has been earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager. Of this amount, $2,240 (June 30, 2008 - nil) has been waived by the Property Manager and nil (June 30, 2008 - $2,020) has been expensed in the consolidated statement of earnings. The waiving of the incentive fee by the Property Manager is effective for the entire 2009 fiscal year.

Pursuant to the above agreements, as at June 30, 2009, $657 (December 31, 2008 - $1,022) was payable to the Property Manager.

The REIT leases space to companies affiliated with the Property Manager. The rental income earned for the three months ended June 30, 2009 is $313 (June 30, 2008 - $288) and for the six months ended June 30, 2009 is $614 (June 30, 2008 - $573).

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

19. Segmented disclosures:

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

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

Income properties and properties under development	June 30 2009	December 31 2008
Canada	**$ 3,721,008**	$ 3,758,837
United States	**1,240,125**	1,348,189
	$ 4,961,133	$ 5,107,026

Net property operating income for the three months ended June 30, 2009	Canada	United States	Total
Operating revenue	**$ 124,856**	**$ 26,092**	**$ 150,948**
Property operating costs	**(41,597)**	**(4,596)**	**(46,193)**
Interest	**(30,148)**	**(14,789)**	**(44,937)**
Depreciation and amortization	**(22,885)**	**(8,357)**	**(31,242)**
Net property operating income	**$ 30,226**	**$ (1,650)**	**$ 28,576**

Net property operating income for the three months ended June 30, 2008 (note 2)	Canada	United States	Total
Operating revenue	$ 121,890	$ 28,242	$ 150,132
Property operating costs	(44,193)	(4,285)	(48,478)
Interest	(29,587)	(13,208)	(42,795)
Depreciation and amortization	(23,184)	(7,987)	(31,171)
Net property operating income	$ 24,926	$ 2,762	$ 27,688

Net property operating income for the six months ended June 30, 2009	Canada	United States	Total
Operating revenue	**$ 253,751**	**$ 56,163**	**$ 309,914**
Property operating costs	**(88,505)**	**(9,737)**	**(98,242)**
Interest	**(58,454)**	**(30,636)**	**(89,090)**
Depreciation and amortization	**(45,877)**	**(17,516)**	**(63,393)**
Net property operating income	**$ 60,915**	**$ (1,726)**	**$ 59,189**

Net property operating income for the six months ended June 30, 2008 (note 2)	Canada	United States	Total
Operating revenue	$ 242,289	$ 54,741	$ 297,030
Property operating costs	(87,430)	(8,198)	(95,628)
Interest	(59,518)	(25,696)	(85,214)
Depreciation and amortization	(45,184)	(15,665)	(60,849)
Net property operating income	$ 50,157	$ 5,182	$ 55,339

20. Assets held for sale and discontinued operations:

Three industrial and one office property are currently held for sale as at June 30, 2009 (one industrial and one retail property as at December 31, 2008).

The following table sets forth the balance sheets associated with income properties classified as discontinued operations.

	June 30 2009	December 31 2008
Assets		
Income properties (net of accumulated depreciation of $7,351 (2008 - $3,422))	**$ 165,883**	$ 28,804
Accrued rent receivable	**1,977**	13
Cash and cash equivalents	**527**	471
Prepaid expenses and sundry assets	**102**	113
Accounts receivable	**62**	469
Tenant inducements	**1,908**	-
	$ 170,459	$ 29,870
Liabilities		
Mortgages payable	**$ 106,153**	$ 5,959
Intangible liabilities (net of accumulated amortization of $31 (2008 - nil))	**235**	-
Accounts payable and accrued liabilities	**6,424**	2,192
	$ 112,812	$ 8,151

The REIT sold three properties in the first six months of 2009. As at June 30, 2009, four income properties met the held-for-sale criteria and as a result are reported in discontinued operations. For the year ended December 31, 2008, there were 16 properties sold. The results of operations from these properties have been separately disclosed below.

	Three Months Ended June 30		Six Months Ended June 30	
Net earnings from discontinued operations	**2009**	2008	**2009**	2008
		(note 2)		(note 2)
Operating revenue:				
Rentals from income properties	**$ 4,162**	$ 10,026	**$ 8,792**	$ 20,055
Straight-lining of contractual rent	**304**	286	**646**	371
Rent amortization of above- and below-market rents	**3**	(6)	**7**	(12)
Rent amortization of tenant inducements	**-**	-	**(92)**	-
	4,469	10,306	**9,353**	20,414
Mortgage interest and other income	**-**	1	**-**	2
	4,469	10,307	**9,353**	20,416
Operating expenses:				
Property operating costs	**854**	3,048	**1,708**	6,651
Contractual mortgage interest	**1,575**	2,695	**3,242**	5,071
Effective interest rate accretion	**120**	19	**205**	51
Amortization of mortgage premium	**(18)**	(16)	**(55)**	(61)
Bank interest and charges	**-**	356	**1**	357
Depreciation and amortization	**81**	875	**1,143**	1,415
	2,612	6,977	**6,244**	13,484
Net property operating income	**1,857**	3,330	**3,109**	6,932
Gain on sale of income properties	**6,441**	10,221	**6,865**	24,628
Non-controlling interest	**(305)**	(671)	**(367)**	(1,599)
Net earnings from discontinued operations	**$ 7,993**	$ 12,880	**$ 9,607**	$ 29,961

21. Commitments and contingencies:

(a) The REIT is currently undertaking significant development activities for the two million square foot office building in Calgary, Alberta (the "Bow"), which is fully pre-leased to EnCana Corporation for a 25-year term. The REIT has committed to incurring additional construction and development costs for this project of approximately $989,000 over a four-year period, of which approximately $229,000 is expected to be incurred during the next six months. As at June 30, 2009, the total cost incurred on the project amounted to $558,042 (note 4). This budget includes the construction of 1,361 parking stalls below both the North and South blocks. Construction commenced in the spring of 2007 and is planned to be completed in 2012 to meet the completion timetable. In certain circumstances, should the delivery of tranches of space within the project be delayed, the REIT will be liable to the tenant for certain delay costs which may be significant. While the current difficult economic conditions impacted the REIT's financing strategy; the REIT was able to arrange the Bow Facility (note 8(b)) and issue the Non-Convertible Debentures (note 7).

(b) In the normal course of operations, the REIT has issued letters of credit in connection with financings, operations and acquisitions. As at June 30, 2009, the REIT has outstanding letters of credit totalling $51,548 (December 31, 2008 - $51,791), including $22,363 (December 31, 2008 -

$22,566) which has been pledged as security for certain mortgages payable. These letters of credit are secured in the same manner as the bank indebtedness (note 8(a)).

(c) The REIT provides guarantees on behalf of third parties, including co-owners. As at June 30, 2009, the REIT issued guarantees amounting to $50,086 (December 31, 2008 - $51,340), expiring between 2011 and 2017, relating to the co-owner's share of mortgage liability. In addition, the REIT's guarantees remain in place for debts assumed by purchasers in connection with certain property dispositions, and will remain until such debts are extinguished or the lenders agree to release the REIT's covenants. At June 30, 2009 the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is approximately $9,638 (December 31, 2008 - $14,348) which expires between 2009 and 2034. There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in these financial statements.

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

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

22. Income taxes:

Income tax expense consists of the following:	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Income tax expense included in the determination of net earnings from continuing operations:				
Current	**$ 93**	$ 700	**$ 166**	$ 1,311
Future	**1,544**	2,986	**6,059**	4,769
	1,637	3,686	**6,225**	6,080
Future income taxes included in the determination of other comprehensive income	**(970)**	(16)	**(910)**	631
	$ 667	$ 3,670	**$ 5,315**	$ 6,711

23. Comparative figures:

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

24. Subsequent events:

(a) In July 2009, the REIT sold a 164,000 square foot industrial building located in Mississauga, ON for gross proceeds of $11,800.

(b) In July 2009, the REIT completed a mortgage financing in the principal amount of $85,000 at a contracted interest rate of 6.5% per annum for a term of five years on an office property located in Mississauga, ON.

(c) In July 2009, the REIT prepaid in full a vendor take-back mortgage (which was not due for repayment until December 31, 2009) on an industrial property in Ajax, ON in the principal amount of approximately $34,800, which was bearing interest at the rate of 6% per annum.

(d) In July 2009, the REIT completed a public offering of $150,000 of 6.75% Series B convertible unsecured subordinated debentures. The debentures mature on December 31, 2014. Each debenture is convertible into freely tradeable Stapled Units at the holders' option at a conversion price of $14.00 per Stapled Unit.

(e) In July 2009, the REIT sold its 55% interest in an 85,000 square foot office building located in Springfield, Utah for gross proceeds of $8,600.

(f) In August 2009, the REIT sold a 243,614 square foot industrial building located in Markham, ON for gross proceeds of $17,000.

(g) In August 2009, the REIT secured a commitment to renew the general operating facility of $300,000 for a two-year period due August 15, 2011.

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

For the Three and Six Months ended June 30, 2009

Dated: August 13, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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SECTION I

FORWARD-LOOKING DISCLAIMER

Management's discussion and analysis ("MD&A") of the combined financial position and the consolidated results of operations of H&R Real Estate Investment Trust (the "REIT") and H&R Finance Trust ("Finance Trust" and collectively with the REIT, "Trusts") for the three and six months ended June 30, 2009 should be read in conjunction with the Trusts' combined financial statements and the notes thereto for the three and six months ended June 30, 2009 and for the years ended December 31, 2008 and 2007. Historical results, including trends which might appear, should not be taken as indicative of future operations or results. Certain prior period items have been reclassified to conform with the presentation adopted in the current period.

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

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

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

Canadian securities regulatory authorities or for any failure of Finance Trust or its trustees or officers to disclose events or facts which may have occurred or which may affect the significance or accuracy of any such information.

All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements are made as of August 13, 2009 and the Trusts, except as required by applicable law, assume no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances. All information for the three and six months ended June 30, 2009 and 2008 is unaudited.

NON-GAAP FINANCIAL MEASURES

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' financial performance. Such measures are not recognized under Canadian generally accepted accounting principles ("GAAP") and therefore do not have standardized meanings prescribed by GAAP. Management believes that these non-GAAP financial measures are a meaningful measure of operating performance as they reject the assumption that the value of real estate investments diminishes predictably over time. These non-GAAP financial measures should not be construed as alternatives to comparable financial measures calculated in accordance with GAAP. Further, the Trusts' method of calculating such supplemental financial measures may differ from the methods of other real estate investment trusts or other issuers and accordingly, such supplemental financial measures used by management may not be comparable to similar measures presented by other real estate investment trusts or other issuers.

OVERVIEW

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

The REIT has two primary objectives:

- to provide unitholders with stable and growing cash distributions, generated by the revenue it derives from investments in income producing real estate properties; and
- to maximize unit value through ongoing active management of the REIT's assets, acquisition of additional properties and the development and construction of projects which are pre-leased to creditworthy tenants.

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

The primary purpose of Finance Trust is to be a flow-through vehicle to allow the REIT to indirectly access the capital markets in a tax-efficient manner by indirectly borrowing money from the REIT's unitholders. Finance Trust's primary activity will be to hold debt issued by H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco"),

a wholly owned U.S. subsidiary of the REIT. As at June 30, 2009, Finance Trust holds U.S. $125.7 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 the REIT unit must be ''stapled'' to a Finance Trust unit (and each Finance Trust unit must be ''stapled'' to a REIT unit) unless there is an "event of uncoupling" (as described below). As part of the Plan of Arrangement, as described in the REIT's information circular dated August 20, 2008, the REIT and Finance Trust entered into a support agreement (the "Support Agreement") which provided, among other things, for the co-ordination of the declaration and payment of all distributions so as to provide for simultaneous record dates and payment dates; for co-ordination so as to permit the REIT to perform its obligations pursuant to the REIT's Declaration of Trust, Unit Option Plan, Distribution Reinvestment Plan and Unit Purchase Plan ("DRIP") and Unitholder Rights Plan; for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable and permit the REIT to perform its obligations arising under any security issued by the REIT (including securities convertible, exercisable or exchangeable into Stapled Units); for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable the REIT to perform its obligations or exercise its rights under its convertible debentures; and for Finance Trust to take all such actions and do all such things as are necessary or desirable to issue Finance Trust units simultaneously (or as close to simultaneously as possible) with the issue of REIT units and to otherwise ensure at all times that each holder of a particular number of REIT units holds an equal number of Finance Trust units, including participating in and cooperating with any public or private distribution of Stapled Units by, among other things, executing prospectuses or other offering documents.

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

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

Investment Restrictions

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

(a) U.S. Holdco Notes; and

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

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

	Three months ended June 30			Six months ended June 30		
	2009	2008	Change	**2009**	2008	Change
			%			%
FUNDS FROM OPERATIONS PER UNIT [(1)]	**$0.379**	$0.429	(12)	**$0.856**	$0.867	(1)
ADJUSTED FUNDS FROM OPERATIONS PER UNIT [(1)]	**$0.395**	$0.375	5	**$0.810**	$0.772	5
CASH DISTRIBUTIONS PAID PER UNIT	**$0.180**	$0.360	(50)	**$0.360**	$0.720	(50)

(1) Funds from operations and adjusted funds from operations are reconciled to cash provided by operations being the most comparable GAAP measure to these non-GAAP financial measures. See page 27.

	June 30 2009	December 31 2008	June 30 2008
Total debt to gross book value	**55.4%**	56.5%	56.6%
Total debt to gross book value (in accordance with the REIT Declaration of Trust)	**53.7%**	54.7%	54.8%

The geographic diversification of the REIT's portfolio (excluding the seven Boscov's Department Stores which filed for Chapter 11 protection with a United States bankruptcy court) as at June 30, 2009 is outlined in the charts below:

NUMBER OF PROPERTIES	**Ontario** Properties	**United States** Properties	**Alberta** Properties	**Quebec** Properties	**Other** Properties	**Total** Properties
Office	23	3	4	1	4	35
Industrial	57	17	19	11	19	123
Retail	32	75	5	5	3	120
Total	112	95	28	17	26	278

(in thousands of square feet)	Ontario Sq.ft.	United States Sq.ft.	Alberta Sq.ft.	Quebec Sq.ft.	Other Sq.ft.	Total Sq.ft.
Office	5,285	304	1,406	452	884	8,331
Industrial	10,947	7,392	2,810	2,850	1,176	25,175
Retail	1,751	4,504	515	498	524	7,792
Total	17,983	12,200	4,731	3,800	2,584	41,298

	Office		Industrial		Retail		Total	
LEASE EXPIRIES	% of sq.ft.	Rent per sq.ft. ($) on expiry	% of sq.ft.	Rent per sq.ft. ($) on expiry	% of sq.ft.	Rent per sq.ft. ($) on expiry	% of sq.ft.	Rent per sq.ft. ($) on expiry
2009*	0.3	20.91	1.4	4.61	0.1	20.04	1.8	8.18
2010	0.6	19.76	1.9	6.41	0.3	24.96	2.8	11.26
2011	0.8	18.78	0.3	13.69	0.1	11.08	1.2	16.87
2012	0.8	17.67	2.1	5.21	0.1	21.88	3.0	9.09
2013	0.7	15.88	3.4	5.56	0.4	9.76	4.5	7.54
	3.2	18.25	9.1	5.78	1.0	16.69	13.3	9.60

* for the balance of the year

OCCUPANCY LEVELS AND AVERAGE RENT PER SQUARE FOOT	Three months ended June 30	Office	Industrial	Retail	Total*
Occupancy [(1)]	**2009**	**99.0%**	**94.3%**	**97.9%**	**95.9%**
	2008	98.9%	99.0%	99.9%	99.2%
Occupancy – same asset [(2)]	**2009**	**99.0%**	**98.4%**	**99.9%**	**98.8%**
	2008	99.0%	98.9%	99.9%	99.1%
Average rent per square foot [(3)]	**2009**	**$19.58**	**$5.59**	**$13.03**	**$9.94**
	2008	**$18.86**	**$5.52**	**$9.74**	**$9.06**

* weighted average total

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

(2) Same asset refers to those properties owned by the REIT for the entire eighteen month period ended June 30, 2009 and excludes any assets classified as discontinued operations and those assets whose tenants terminated their leases due to U.S. bankruptcies.

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

The change in occupancy for the industrial portfolio is due to vacancies at the Circuit City industrial warehouse in Marion, IL and two other industrial properties located in the greater Toronto area. The change in occupancy for the retail portfolio is due to the three Bruno's Supermarkets LLC., which are located throughout the state of Alabama.

	June 30 2009	December 31 2008
Average remaining term to maturity of leases (years)	**11.1**	11.5
Average remaining term to maturity of mortgages payable (years)	**8.7**	9.3
Weighted average contractual interest rate of mortgages payable	**6.2%**	6.2%

MORTGAGES PAYABLE	Periodic Amortized Principal ($000's)	Principal on Maturity ($000's)	Total Principal ($000's)	% of Total Principal	Weighted Average Interest Rate on Maturity
2009 *	$45,327	$38,831	$84,158	3.1%	6.1%
2010	96,495	20,590	117,085	4.2%	6.8%
2011	100,339	70,246	170,585	6.2%	6.5%
2012	99,366	277,529	376,895	13.7%	6.7%
2013	94,504	102,278	196,782	7.2%	7.5%
Thereafter			1,804,922	65.6%	
			2,750,427	100%	
Mortgages payable due on demand(1)			177,895		
Mortgages payable on assets sold (2)			5,791		
Mortgage premiums(3)			9,485		
Mortgage origination costs(4)			(11,790)		
Total			$2,931,808		

* for the balance of the year

(1) This figure includes 11 non-recourse mortgages to the REIT for income properties in which the tenants (Boscov's Department Stores, Circuit City and Bruno's Supermarkets LLC), have filed for protection under Chapter 11 of the United States Bankruptcy Code. The REIT has handed over control of seven of these income properties to the lenders and therefore expects to be released from any further obligations under these non-recourse mortgages. GAAP requires the REIT to show the full liability until such time as the lender accepts transfer of title to the properties and releases the REIT's subsidiaries from its debt obligations. As a result, the contractual amount of $177.9 million is now listed as currently due on demand.

(2) In conjunction with the sale of 10 income properties during 2008, the purchaser agreed to assume an aggregate mortgage balance of $82.6 million, and indemnify the REIT until such time that the lenders consent and release the REIT in respect of these mortgages. At June 30, 2009, the REIT has not been legally released from its mortgage obligation for the last remaining property, resulting in an outstanding contractual balance of $5.8 million.

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

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

SECTION II

RESULTS OF OPERATIONS

(in thousands of dollars except per unit amounts)	Three months ended June 30			Six months ended June 30		
	2009	2008	Change %	**2009**	2008	Change %
Operating revenue:						
Rentals from income properties	**$149,772**	$149,489	-	**$306,914**	$295,791	4
Mortgage interest and other income	**1,175**	643	83	**3,000**	1,239	142
	150,947	150,132	1	**309,914**	297,030	4
Operating expenses:						
Property operating costs	**46,193**	48,478	(5)	**98,242**	95,628	3
Interest	**44,937**	42,795	5	**89,090**	85,214	5
Depreciation and amortization	**31,242**	31,171	-	**63,393**	60,849	4
	122,372	122,444	-	**250,725**	241,691	4
Net property operating income	**28,575**	27,688	3	**59,189**	55,339	7
Impairment loss on income properties	**(6,763)**	-	n/a	**(14,992)**	-	n/a
Unrealized gain on swap derivatives	**5,767**	-	n/a	**5,767**	-	n/a
Unrealized loss on foreign exchange	**(12,092)**	(1,175)	929	**(7,197)**	(1,175)	513
Trust expenses	**(1,957)**	(1,669)	17	**(3,820)**	(3,164)	21
Net earnings before income taxes, non-controlling interest and discontinued operations	**13,530**	24,844	(46)	**38,947**	51,000	(24)
Income taxes	**(1,637)**	(3,686)	(56)	**(6,225)**	(6,080)	2
Net earnings before non-controlling interest and discontinued operations	**11,893**	21,158	(44)	**32,722**	44,920	(27)
Non-controlling interest	**(985)**	(1,065)	(8)	**(1,330)**	(2,295)	(42)
Net earnings from continuing operations	**10,908**	20,093	(46)	**31,392**	42,625	(26)
Net earnings from discontinued operations	**7,993**	12,880	(38)	**9,607**	29,961	(68)
Net earnings	**$18,901**	$32,973	(43)	**$40,999**	$72,586	(44)
Basic net earnings per unit						
Continuing operations	**$0.08**	$0.15	(47)	**$0.22**	$0.33	(33)
Discontinued operations	**0.05**	0.10	(50)	**0.07**	0.23	(70)
	$0.13	$0.25	(44)	**$0.29**	$0.56	(48)
Diluted net earnings per unit						
Continuing operations	**$0.08**	$0.15	(47)	**$0.21**	$0.33	(36)
Discontinued operations	**0.05**	0.10	(50)	**0.06**	0.23	(74)
	$0.13	$0.25	(44)	**$0.27**	$0.56	(52)

The changes for both the three and six months ended June 30, 2009 are mainly due to the increased rental income from asset acquisitions and the transfer of assets from properties under development to income properties, the loss of rental income from properties in the United States whose tenants terminated their

leases, the increased interest expense, impairment loss on income properties, unrealized gain on swap derivatives, unrealized loss on foreign exchange, the gains realized on disposals of income properties in net earnings from discontinued operations and the change in the foreign exchange rates between the first six months of 2009 and the first six months of 2008.

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

Rentals from Income Properties

Rentals from income properties ("rentals") include all amounts earned from tenants related to lease agreements, including basic rent, parking income, operating cost recoveries and realty tax recoveries. Rentals from properties sold or where an asset meets the held-for-sale criteria have been recorded under net earnings from discontinued operations during the six months ended June 30, 2009 and 2008.

Rentals from Income Properties	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2009**	2008	Change	**2009**	2008	Change
Same-asset – current rentals	**$143,458**	$139,906	$3,552	**$291,608**	$278,504	$13,104
Same-asset – straight-lining of contractual rent increases	**3,465**	4,433	(968)	**7,073**	8,233	(1,160)
Acquisitions – current rentals and straight-lining of contractual rent increases	**3,458**	-	3,458	**7,245**	-	7,245
Terminated leases due to U.S. bankruptcies	**(609)**	5,150	(5,759)	**988**	9,054	(8,066)
Total rentals	**$149,772**	$149,489	$283	**$306,914**	$295,791	$11,123

The increase in same-asset current rentals of $3.6 million for Q2 2009 as compared to Q2 2008 is primarily due to the following items:

- an increase of $1.4 million of additional rent for capitalized building improvements recoverable from tenants under their leases;
- the change in straight-lining of contractual rent increases of $1.0 million. This decrease leads to an increase in same-asset current rentals as these two items have an inverse relationship;
- an increase of $3.5 million from U.S. properties due to an increase in the U.S. dollar as compared to the Canadian dollar; and
- a decrease of $2.2 million in recoverable operating costs which leads to a decrease in same-asset current rentals.

The increase in same-asset current rentals of $13.1 million for the six months ended June 30, 2009 as compared to the same 2008 period is primarily due to the following items:

- an increase of $1.4 million of additional rent for capitalized building improvements recoverable from tenants under their leases;
- the change in straight-lining of contractual rent increases of $1.2 million. This decrease leads to an increase in same-asset current rentals as these two items have an inverse relationship;
- same-asset total rentals from properties in the United States have increased by $9.3 million due to the increase in foreign exchange rates; and

- an increase in other recoverable operating costs of $1.5 million which leads to an increase in same-asset current rentals.

Property Operating Costs

Property operating costs include costs relating to such items as cleaning, interior and exterior building repairs and maintenance, elevator, HVAC and insurance (collectively "building operating costs"); realty taxes; utilities and property management fees (see "Related Party Transactions") among other items. For Q2 2009, building operating costs, realty taxes, utilities and property management fees represented 15.3%, 58.1%, 10.7%, and 5.5% respectively of total property operating costs (Q2 2008 - 19.4%, 53.0%, 11.2% and 6.7%). For the six months ended June 30, 2009, these costs represented 18.4%, 55.4%, 11.8% and 4.8% respectively of property operating costs (June 30, 2008 - 17.8%, 54.1%, 12.1% and 6.9%).

Property Operating Costs	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2009**	2008	Change	**2009**	2008	Change
Same-asset property operating costs	**$44,909**	$47,934	($3,025)	**$95,356**	$94,660	$696
Acquisitions	**1,117**	-	1,117	**2,280**	-	2,280
Terminated leases due to U.S. bankruptcies	**167**	544	(377)	**606**	968	(362)
Total property operating costs	**$46,193**	$48,478	($2,285)	**$98,242**	$95,628	$2,614

The decrease in same-asset property operating costs of $3.0 million is due primarily to the following reasons:

- lower recoverable same-asset property operating expenses quarter over quarter of $1.3 million;
- lower recoverable same-asset property operating expenses of $0.9 million due to expenditures capitalized to building improvements;
- higher expenses related to the REIT's U.S. properties of $0.7 million due to the change in foreign exchange rates;
- lower management fees of $0.8 million; and
- lower expenses of $0.4 million due to the change in accounting policy as described in Section IV;

The increase in same-asset property operating costs for the six months of $0.7 million is due primarily to the following reasons:

- higher recoverable same-asset property operating expenses of $2.4 million;
- lower recoverable same-asset property operating expenses of $0.9 million due to expenditures capitalized to building improvements;
- higher expenses related to the REIT's U.S. properties of $1.9 million due to the change in foreign exchange rates;
- lower management fees of $2.2 million; and
- lower expenses of $0.9 million due to the change in accounting policy as described in Section IV.

Same-Asset Property Operating Income *	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2009**	2008	Change	**2009**	2008	Change
Same-asset rentals	**$146,923**	$144,339	$2,584	**$298,681**	$286,737	$11,944
Same-asset - property operating costs	**44,909**	47,934	(3,025)	**95,356**	94,660	696
Total same-asset - property operating income *	**$102,014**	$96,405	$5,609	**$203,325**	$192,077	$11,248
Total same-asset – property operating income excluding straight-lining of contractual rent	**$98,549**	$91,972	$6,577	**$196,252**	$183,844	$12,408

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

As can be seen above, total same-asset property operating income has increased by $5.6 million for the three months and by $11.2 million for the six months ended June 30, 2009 as compared to the 2008 periods. A primary reason for the increase is due primarily to a weakening of the Canadian dollar during Q2 2009 as compared to Q2 2008 and for the six month period ending June 30, 2009 as compared to June 30, 2008. This is more evident when the same-asset property income is split between Canada and the U.S. as shown below. The other primary reason is due to additional property operating income of $2.3 million for recoverable amounts capitalized to building improvements.

Canada	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2009**	2008	Change	**2009**	2008	Change
Same-asset total rentals	**$120,383**	$121,256	($873)	**$243,791**	$241,173	$2,618
Same-asset property operating costs	**40,482**	44,190	(3,708)	**86,234**	87,429	(1,195)
Same-asset property operating income	**$79,901**	$77,066	$2,835	**$157,557**	$153,744	$3,813
United States						
Same-asset total rentals	**$26,540**	$23,083	$3,457	**$54,890**	$45,564	$9,326
Same-asset property operating costs	**4,427**	3,744	683	**9,122**	7,231	1,891
Same-asset property operating income *	**$22,113**	$19,339	$2,774	**$45,768**	$38,333	$7,435
Total same-asset property operating income *	**$102,014**	$96,405	$5,609	**$203,325**	$192,077	$11,248

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

The increase in the Canadian same-asset property operating income is mainly due to $2.3 million in additional operating income for recoverable amounts capitalized to building improvements along with a decrease to management fees.

The increase in the U.S. same-asset property operating income for both the quarter and the six months is due to the strengthening of the U.S. dollar.

Mortgage Interest and other Income	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2009**	2008	Change	**2009**	2008	Change
Mortgage interest and other income	**$1,175**	**$643**	$532	**$3,000**	$1,239	$1,761

Interest income increased when comparing Q2 2009 to Q2 2008 and for the six month period ended June 30, 2009 as compared to June 30, 2008. The increase is primarily due to two new vendor take back mortgages totalling $61 million which the REIT granted upon the sale of 110 Bloor Street West in Toronto, Ontario in December of 2008.

Interest	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2009**	2008	Change	**2009**	2008	Change
Contractual interest on mortgages payable	**$45,627**	$46,327	(700)	**$92,465**	$90,833	1,632
Contractual interest on debentures payable	**6,191**	507	5,684	**8,077**	507	7,570
Amortization of mortgage premium	**(424)**	(441)	17	**(836)**	(873)	37
Effective interest rate accretion	**1,227**	284	943	**2,171**	778	1,393
Bank interest and charges	**222**	1,475	(1,253)	**1,718**	3,153	(1,435)
	52,843	48,152	4,691	**103,595**	94,398	9,197
Capitalized interest	**(7,906)**	(5,357)	(2,549)	**(14,505)**	(9,184)	(5,321)
Mortgage and other interest expense	**$44,937**	$42,795	$2,142	**$89,090**	$85,214	$3,876

Included in mortgage interest for the three months ended June 30, 2009 is an accrual of $2.2 million which relates to interest accrued for the mortgages on the Boscov's Department Stores after the REIT has informed the lender of its intention to relinquish control to settle outstanding mortgages. The amount accrued for the six months is $4.6 million. Upon the lender taking title to the properties and releasing the REIT's subsidiaries from all obligations under these mortgages this accrual will be reversed into income. For Circuit City, there was $0.4 million of mortgage interest accrued for the three and six months ended June 30, 2009.

The reason for the increase in debenture interest is due to the REIT issuing $115 million of convertible debentures in June 2008 (at a contractual annual interest rate of 6.65%) and $200 million of unsecured debentures (at a contractual annual interest rate of 11.5%) in April 2009.

Effective interest rate accretion will continue to increase as the debentures payable move closer to maturity.

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

As at both June 30, 2009 and 2008, the REIT's weighted average contractual mortgage rate was 6.2%.

Impairment Loss on Income Properties	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2009**	2008	Change	**2009**	2008	Change
Impairment loss on income properties	**$6,763**	-	$6,763	**$14,992**	-	$14,992

On November 10, 2008, a tenant, Circuit City, filed for Chapter 11 protection with a United States bankruptcy court. The tenant subsequently terminated its lease on March 22, 2009. The industrial building occupied by Circuit City has a gross leasable area of approximately 1,078,000 square feet. As at June 30, 2009, this

property had a non-recourse mortgage outstanding totalling $23.1 million. The REIT has written down the property to its estimated fair value of $23.1 million. On February 5, 2009, Bruno's Supermarkets LLC filed for Chapter 11 protection and on May 31, 2009 terminated its leases for the three retail properties owned by the REIT. The REIT has written down the value of the three properties to their estimated fair value of $18.9 million which corresponds to the non-recourse mortgage value of $18.9 million. This represented the fair value of the properties as required under GAAP. These filings for Chapter 11 protection have partially led to an increase in the vacancy of the REIT's industrial and retail portfolio, see "Overview".

Unrealized Gain on Swap Derivatives	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2009**	2008	Change	**2009**	2008	Change
Unrealized gain on swap derivatives	**$5,767**	-	$5,767	**$5,767**	-	$5,767

Upon entering into the construction facility for the Bow, the REIT entered into an interest rate swap which effectively locked the effective interest rate on the construction facility at 6.90%. At the end of each reporting period, the interest rate swap must be marked to market, resulting in an unrealized gain or loss recorded in net earnings. Upon the construction facility being utilized, the difference between the hedged rate and the actual rate will be recorded as a realized gain or loss in net earnings. A realized gain or loss will be recorded upon maturity of the swap which will coincide with the maturity of the construction facility.

Unrealized Loss on Foreign Exchange	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2009**	2008	Change	**2009**	2008	Change
Unrealized loss on foreign exchange	**$12,092**	$1,175	$10,917	**$7,197**	$1,175	$6,022

The loss on foreign exchange which was recorded in Finance Trust is due to a difference in exchange rates between January 1, 2009 and June 30, 2009 as the notes receivable from U.S. Holdco (which is eliminated upon combination) are denominated in U.S. dollars while the financial statements of Finance Trust are denominated in Canadian dollars.

In connection with the reorganization which occurred on October 1, 2008, U.S. Holdco repaid its intercompany loan from the REIT. As a result of the reorganization, under GAAP the REIT was required to record an unrealized loss on foreign exchange of $1.2 million for both the three months and the six months ended June 30, 2008. This loss represented the change in the foreign exchange rate from January 17, 2008 (the date of the change in management's intention to repay USD $125 million of the loan) to June 30, 2008. Upon the completion of the reorganization, the cumulative amount of foreign currency reported in other comprehensive income with regard to the USD $125 million was realized and recorded in the income statement of the REIT. The amount of the realized loss which was recorded on October 1, 2008 was $27.3 million. This loss was previously recorded in other comprehensive income.

Income Taxes	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2009**	2008	Change	**2009**	2008	Change
Current income taxes at U.S. federal applicable state statutory rates	**$93**	$133	($40)	**$166**	$207	($41)
U.S. federal withholding taxes	**-**	567	(567)	**-**	1,104	(1,104)
Future income taxes at Canadian corporate and applicable provincial statutory rates	**1,544**	2,986	(1,442)	**6,059**	4,769	1,290
Total income taxes	**$1,637**	$3,686	($2,049)	**$6,225**	$6,080	($145)
Future income taxes included in the determination of other comprehensive income (loss)	**(970)**	(16)	(954)	**(910)**	**631**	(1,541)

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

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

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

The REIT does not currently meet certain technical requirements for the REIT exemption. Management is of the view that it can make changes that are within its control, and restructure its investment in H&R Portfolio Limited Partnership ("HRLP"), in order to qualify for the REIT exemption prior to 2011. As the REIT currently does not qualify, GAAP requires the REIT to prepare its accounts on the basis that the new rules currently apply. Future income tax assets or liabilities are recorded using tax rates and laws expected to apply when the temporary differences are expected to reverse. The SIFT rules resulted in the REIT including a future income tax liability of $141.1 million in the consolidated balance sheet at June 30, 2009, with a future income tax expense of $1.5 million reflected as a charge to consolidated earnings for the three months ended June 30, 2009 and a future income tax expense of $1.0 million reflected as a charge to other comprehensive income. For the six months ended June 30, 2009, a future income tax expense of $6.1 million has been recorded as a charge to consolidated earnings and a future income tax expense of $0.9 million reflected as a charge to other comprehensive income. Temporary differences expected to reverse in or after 2011 have been measured using a tax rate of 30.5% in 2011 and 29% thereafter.

Future income tax expense relating to other comprehensive income of $1.0 million for the quarter ended June 30, 2009 (Q2 2008 - $0.02 million) and $0.9 million for the six months ended June 30, 2009 (June 30, 2008 - ($0.6) million) represents future taxes to be paid on other comprehensive income. This liability will decrease as other comprehensive income is transferred to earnings.

For the quarter ended June 30, 2009, current income taxes amounted to $0.1 million (Q2 2008 - $0.1 million). For the six months ended June 30, 2009, current income taxes amounted to $0.2 million (June 30, 2008 - $0.2 million).

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

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

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

Net Earnings from Discontinued Operations

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

Net Earnings from Discontinued Operations	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2009**	2008	Change	**2009**	2008	Change
Net property operating income	**$1,857**	$3,330	($1,473)	**$3,109**	$6,932	($3,823)
Gain on sale of income properties	**6,441**	10,221	(3,780)	**6,865**	24,628	(17,763)
Non-controlling interest	**(305)**	(671)	366	**(367)**	(1,599)	1,232
Net earnings from discontinued operations	**$7,993**	$12,880	(4,887)	**$9,607**	$29,961	($20,354)

During the three months ended June 30, 2009, the REIT sold one income property (June 30, 2008 - 12) for gross proceeds of $18.4 million (Q2 2008 – $170.0 million). For the six months ended June 30, 2009, the REIT sold three income properties (June 30, 2008 – 14) for gross proceeds of $39.2 million (2008 - $210.4 million). The net earnings from discontinued operations include the results from these properties as well as from the properties currently held for sale.

Dispositions from January 1, 2009 to June 30, 2009

Property	Property Type	Date Sold	Square Footage	Gross Proceeds ($ Millions)	Ownership Interest disposed
2435 EW Connector, Austell, GA	Retail	Feb 10, 09	115,396	$16.4	100%
97 Thames Rd., E. Exeter, ON	Industrial	Mar 16, 09	84,000	4.4	100%
1711 Springfield Rd., Kelowna, BC	Retail	June 3, 09	110,178	18.4	100%
Total			309,574	$39.2	

Dispositions from January 1, 2008 to June 30, 2008

Property	Property Type	Date Sold	Square Footage	Gross Proceeds ($ Millions)	Ownership Interest disposed
6580 Millcreek Dr., Mississauga, ON	Industrial	Mar 05, 08	249,634	$21.2	100%
6590 Millcreek Dr., Mississauga, ON	Industrial	Mar 05, 08	225,694	19.2	100%
1750 Deptford Centre Rd., Deptford, NJ	Retail	May 20, 08	175,752	13.8	55%
720 Maloney Blvd., Gatineau, QC	Retail	June 26, 08	283,970	43.6	100%
220 Chain Lake Drive, Halifax, NS	Retail	June 26, 08	138,027	17.4	100%
1701 Merivale Rd., Ottawa, ON	Retail	June 26, 08	127,489	32.7	100%
1160 Desserte Ouest, Laval, QC	Retail	June 26, 08	116,147	10.9	100%
878-894, 900 Tower St., S, Fergus, ON	Retail	June 26, 08	105,955	9.1	100%
1345-1365 Huron St. and 1250-1270 Highbury Ave., London, ON	Retail	June 26, 08	87,529	15.2	100%
448 St. Clair St., Chatham, ON	Retail	June 26, 08	71,423	$8.7	100%
110 North Front St., Belleville, ON	Retail	June 26, 08	66,714	10.2	100%
857 Cecile Blvd., Hawkesbury, ON	Retail	June 26, 08	54,950	3.8	100%
900 Aberdeen Ave., Hawkesbury, ON	Retail	June 26, 08	17,032	4.3	100%
21 College St. W., Belleville, ON	Retail	June 26, 08	5,211	0.3	100%
Total			1,725,527	$ 210.4	

Properties currently held for sale

Property	Property Type	Square Footage	Ownership Interest
75 Frontenac Dr., Markham, ON	Industrial	243,614	100%
500 Bayly St. E, Ajax, ON	Industrial	909,286	100%
2089 W. Neways Dr., Springville, UT	Office	84,511	55%
6660 Financial Dr., Mississauga, ON	Industrial	164,236	100%
Total		1,401,647	

SEGMENTED INFORMATION

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

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

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

Net property operating income for the three months ended June 30, 2009

(in thousands of dollars)	**Canada**	**United States**	**Total**
Operating revenue	**$124,855**	**$26,092**	**$150,947**
Property operating costs	**(41,597)**	**(4,596)**	**(46,193)**
Mortgage and other interest expense	**(30,148)**	**(14,789)**	**(44,937)**
Depreciation and amortization	**(22,885)**	**(8,357)**	**(31,242)**
Net property operating income	**$30,225**	**($1,650)**	**$28,575**

Net property operating income for the three months ended June 30, 2008

(in thousands of dollars)	Canada	United States	Total
Operating revenue	$121,890	$28,242	$150,132
Property operating costs	(44,193)	(4,285)	(48,478)
Mortgage and other interest expense	(29,587)	(13,208)	(42,795)
Depreciation and amortization	(23,184)	(7,987)	(31,171)
Net property operating income	$24,926	$2,762	$27,688

Net property operating income for the six months ended June 30, 2009

(in thousands of dollars)	**Canada**	**United States**	**Total**
Operating revenue	**$253,751**	**$56,163**	**$309,914**
Property operating costs	**(88,505)**	**(9,737)**	**(98,242)**
Mortgage and other interest expense	**(58,454)**	**(30,636)**	**(89,090)**
Depreciation and amortization	**(45,877)**	**(17,516)**	**(63,393)**
Net property operating income	**$60,915**	**(1,726)**	**$59,189**

Net property operating income for the six months ended June 30, 2008

(in thousands of dollars)	Canada	United States	Total
Operating revenue	$242,289	$54,741	$297,030
Property operating costs	(87,430)	(8,198)	(95,628)
Mortgage and other interest expense	(59,518)	(25,696)	(85,214)
Depreciation and amortization	(45,184)	(15,665)	(60,849)
Net property operating income	$50,157	$5,182	$55,339

The net property operating income for properties located in the United States for the three months ended June 30, 2009 is a loss of $1.7 million as compared to income of $2.8 million for the three months ended June 30, 2008. The change for the three months is primarily composed of the following items:

- a decrease in net property operating income of the seven Boscov's Department Stores of $3.2 million;
- a decrease in net property operating income of the Circuit City property of $0.6 million partially offset by:
- an increase due foreign exchange rates.

For the six months ended June 30, 2009, the loss is $1.7 million as compared to income of $5.2 million for the six months ended June 30, 2008. The change for the six months is primarily composed of the following items:

- a decrease in net property operating income of the seven Boscov's Department Stores of $6.2 million;
- a decrease in net property operating income of the Circuit City property of $0.7 million partially offset by:
- an increase due to foreign exchange rates.

ASSETS

Income Properties

There were no properties acquired during the six months ended June 30, 2009. The table below lists the properties acquired during the year ended December 31, 2008. These acquisitions less the mortgages assumed at closing were funded from the REIT's general operating facility and from the proceeds received from the securities offering that was completed in June 2008.

2008 Acquisitions:

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

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

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

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

Income properties decreased by $66.3 million which arose as a result of the U.S. dollar converting at $1.16 Canadian at June 30, 2009 as compared to $1.22 Canadian at December 31, 2008.

After accounting for the change in foreign exchange, the transfer of a $119 million property from properties under development to income properties, the dispositions and impairment write down mentioned previously and for depreciation and amortization expensed, income properties decreased by 4% to $4.33 billion at June 30, 2009 from $4.52 billion at December 31, 2008.

The portfolio remains relatively new and should require minimal capital expenditure in the future. The average age of the total portfolio from the date built or renovated is 15.3 years at June 30, 2009 (December 31, 2008 - 14.9 years) and the split between type of asset by age of property is as follows:

Average Age by Type of Asset	**June 30, 2009 (years)**	December 31, 2008 (years)
Office	**17.9**	18.1
Industrial	**15.5**	15.0
Retail	**11.8**	11.2
Total	**15.3**	14.9

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

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

The composition of the book value of income properties expressed by type of asset and by region is as follows:

Book Value by Type of Asset (millions)	**June 30, 2009**	December 31, 2008
Office	**$1,601**	$1,512
Industrial	**1,454**	1,651
Retail	**1,275**	1,354
	$4,330	$4,517

Book Value by Region (millions)	**June 30, 2009**	December 31, 2008
Ontario	**$1,807**	$1,859
Alberta	**601**	609
Other	**441**	456
Quebec	**241**	245
Canada	**3,090**	3,169
United States	**1,240**	1,348
Total	**$4,330**	$4,517

As part of the change in accounting policy effective January 1, 2009 (see "Changes to Significant Accounting Policies for 2009") whereby capital expenditures are now either capitalized and depreciated or expensed in the year incurred, the REIT expects to spend approximately $15.4 million for the remainder of 2009 and

$11.4 million for 2010. Of these amounts, $11.4 million and $10.1 million are expected to be capitalized to income properties. The recovery of these costs from tenants is dependent upon the tenants' leases. It is expected that 90% of costs incurred in 2009 and 70% of those costs to be incurred in 2010 will be recoverable from tenants either in the year incurred or over time as part of the normal tenant recovery process.

Properties under development (in thousands of dollars)

Project	Address	**June 30, 2009**	**December 31, 2008**
The Bow	5th Ave. At Centre Street, Calgary, AB	**$558,042**	$402,031
Bell Phase III	Eglinton Ave. & Dixie Rd., Mississauga, ON	**-**	117,007
Heart Lake	Mayfield West Business Park, Caledon, ON	**39,745**	38,471
Airport Road	7900 Airport Rd., Brampton, ON	**33,820**	32,687
		$631,607	$590,196

The REIT entered into agreements to develop the Bow, a 2 million square foot head office complex in Calgary, Alberta for a budgeted cost of approximately $1.5 billion. The budget includes capitalized interest on the REIT's equity investment and the 1,361 parking stalls on both the North and South Blocks. The total budget includes approximately $85 million in development cost contingencies. The REIT has entered into fixed price contracts amounting to approximately 77% of the budgeted $1.05 billion of hard construction costs. As a result, together with the costs incurred to date, the REIT has effectively locked in 82% of the total budget before contingencies. The REIT is expecting to incur approximately $230.0 million of the Bow's development costs over the next six months. See "Liquidity and Capital Resources" for the budget breakdown and the anticipated sources of funds.

The building is fully pre-leased to EnCana Corporation for 25 years. EnCana Corporation will begin to occupy the building in tranches scheduled to commence in the second half of 2011 with the final tranche occurring in 2012. The total annualized year one projected income from the Bow is expected to be $94.3 million. Rent step ups will be 0.75% per annum on the EnCana lease and 1.5% per annum on the parking income for the full 25-year term. In certain circumstances, should the delivery of tranches of space within the project be delayed, the REIT will be liable to the tenant for certain delay costs which may be significant. During the six months ended June 30, 2009, the REIT incurred additional costs of $156.0 million in this project to bring the REIT's total investment to $558.0 million (December 31, 2008 - $402.0 million). Construction progress continues to be on schedule. Structural steel erection has now reached the 15th floor with metal deck installation on the 4th floor.

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

Accrued Rent Receivable

Certain leases call for rental payments that increase over the lease term. To comply with Canadian GAAP, the rental revenue from these leases is recorded on a straight-line basis, resulting in accruals for rents that are not billable or due until future periods. Accrued rent receivable has increased by 3% or $3.3 million from $117.3 million at December 31, 2008 to $120.6 million at June 30, 2009 with a corresponding increase to rentals from income properties.

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

Property	Sq.ft.	Rent Increase ($ psf)	Effective date of increase	Annualized Rental Increases (in thousands of dollars)
25 Sheppard Ave., W	160,437	8.00	Jul 1, 09	1,283
220 Chemin du Tremblay	727,966	0.41	Aug 11, 09	298
55 Yonge St.	98,051	1.91	Sep 1, 09	187
Rona portfolio (9 properties)	973,484	0.86	Nov 2, 09	837
Northpointe Shopping Centre	72,053	1.38	Nov 10, 09	100
1400 Church St.	716,261	0.58	Jan 17, 10	415
500 Palladium Dr.	329,612	0.80	June 1, 10	264
Purolator Courier Portfolio (9 properties)	726,448	0.90	April 1, 10	653
Northpointe Shopping Centre	85,423	2.75	May 5, 10	235

Mortgages and Amount Receivable

(in thousands of dollars)	**June 30, 2009**	December 31, 2008
Mortgage receivable bearing contractual interest at 6.00% per annum and repayable on December 1, 2010	**$57,352**	$57,050
Mortgage receivable bearing contractual interest at 5.30% per annum and repayable on December 13, 2009	**16,430**	16,360
Mortgage receivable bearing contractual interest at prime plus 1.15% per annum and repayable 60 days after demand but not earlier than July 28, 2013	**3,200**	3,200
Mortgage receivable bearing contractual interest at 6.00% per annum and repayable on December 1, 2013	**3,000**	3,000
Amount receivable	**5,791**	10,461
	$85,773	$90,071

Other Assets

(in thousands of dollars)	**June 30, 2009**	December 31, 2008
Deferred leasing expenses	**$27,771**	$28,276
Tenant inducements	**25,626**	14,997
Prepaid expenses and sundry assets	**22,531**	13,652
Cash and cash equivalents	**15,949**	17,212
Restricted cash	**7,208**	4,504
Swap derivatives	**5,767**	-
Accounts receivable	**4,299**	6,959
	$109,151	$85,600

Tenant inducements represent those costs for which the REIT has given the tenant cash as an inducement to enter into a lease agreement. This amount is amortized over the life of the applicable lease and the amortization is deducted from rentals from income properties. Tenant inducements for the period ended June 30, 2009 increased by $10.6 million to a balance of $25.6 million (December 31, 2008 - $15.0 million). The increase relates primarily to inducements payable for BMCC Phase III amounting to $12.0 million. This inducement was part of the construction budget.

Prepaid expenses and sundry assets increased from $13.7 million at December 31, 2008 to $22.5 million at June 30, 2009, an increase of 65%. The increase is primarily due to an increase in prepaid taxes as at June 30, 2009 as compared to December 31, 2008.

Swap derivatives represent the fair value of the interest rate swap on the Bow construction facility. The fair value as at June 30, 2009 is $5.8 million.

Accounts receivable as at June 30, 2009 represents less than three days of rentals outstanding.

LIABILITIES

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

	June 30, 2009	December 31, 2008
Total debt to GBV	**55.4%**	56.5%
Total debt to GBV per the Declaration of Trust [1]	**53.7%**	54.7%
Non-recourse debt as a percentage of total debt	**49.5%**	51.4%
Floating rate debt as a percentage of total debt	**0.6%**	3.3%
Canadian properties total debt to GBV	**51.5%**	54.1%
U.S. properties total debt to GBV	**68.0%**	68.2%
Total debt to GBV excluding non-recourse mortgages where the tenant has filed for protection under Chapter 11 of the United States Bankruptcy Code	**53.3%**	55.2%

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

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

Mortgages Payable

Mortgages payable decreased slightly from the December 31, 2008 figure of $3.15 billion to $2.93 billion as at June 30, 2009. The slight decrease is primarily due to the reclassification of 500 Bayly to discontinued operations ($92.6 million) along with a decrease in the U.S. dollar whereby the conversion rate at December 31, 2008 was $1.22 and at June 30, 2009 was $1.16, resulting in a decrease of $51.3 million. In addition to this change, other items affecting mortgages payable are the repayment and discharge of two mortgages totalling $10.5 million, the assumption of $11.9 million of mortgages payable upon the sale of a property and regular principal repayments.

The mortgages bear interest at the weighted average rate of 6.2% (December 31, 2008 – 6.2%) and mature between 2009 and 2035. The weighted average term to maturity of the REIT's mortgages is 8.7 years (December 31, 2008 - 9.3 years). Going forward, the REIT anticipates being able to refinance all its debt as

it matures. Of the total mortgage balance, only 2.9% will mature in 2009. The mortgages coming due before the end of 2009 bear interest at a weighted average rate on maturity of 6.0%. For a further discussion of interest rate risk, please see “Risks and Uncertainties”.

Segmented disclosure by geographic location is provided as follows:

(in thousands of dollars)	**June 30, 2009**	December 31, 2008
Canada	**$1,952,652**	$2,100,808
United States	**979,156**	1,050,703
Total	**$2,931,808**	$3,151,511

Debentures Payable

	Contractual Interest Rate	Effective Interest Rate	Face Value	**Carrying Value June 30, 2009**	Carrying Value December 31, 2008
2013 Convertible Debentures	6.65%	9.10%	$115 million	**$105.8 million**	$104.8 million
Non-Convertible Debentures	11.5%	12.90%	$200 million	**$187.7 million**	Nil
			$315 million	**$293.5 million**	$104.8 million

Non-Convertible Debentures

In April 2009, the REIT issued $200 million of unsecured debentures (the “Non-Convertible Debentures”) bearing interest at the annual contractual rate of 11.5% and an effective interest rate of 12.9%. The Non-Convertible Debentures mature on April 24, 2014, with interest payable semi-annually on June 30 and December 31. In addition, the REIT issued, simultaneously with the Non-Convertible Debentures, 28,571,429 warrants to purchase Stapled Units at an exercise price of $7.00 per Stapled Unit. Such warrants are exercisable until April 24, 2014. The REIT accounted for the Non-Convertible Debentures by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability that is not issued simultaneously with warrants and allocated such amounts (net of associated issue costs) to the issuance of the Non-Convertible Debentures. The aggregate proceeds realized from the issuance of the Non-Convertible Debentures and warrants (net of issue costs), less the amount allocated to the Non-Convertible Debentures, has been allocated to the issue of the warrants and is classified as equity.

On issuance, the REIT recorded a liability of $187.4 million, net of issue costs of $1.3 million, and equity, which represents the warrants issued to purchase Stapled Units, of $11.2 million, net of issue costs of $0.1 million, with a further reduction of $2.7 million representing the initial deferred tax liability relating to the issuance of the Non-Convertible Debentures. As at June 30, 2009, the liability amount of the Non-Convertible Debentures outstanding was $187.7 million (June 30, 2008- nil). Interest expense is recorded as a charge to income and is calculated at an effective rate with the difference between the coupon rate and the effective rate being credited to the debt component of the Non-Convertible Debentures such that, at maturity, the debt component is equal to the face value of the then outstanding Non-Convertible Debenture.

Bank Indebtedness

The REIT has the following three facilities:

(a) A general operating facility limited to $296.6 million which is secured by a first charge over certain income properties, and can be drawn in either Canadian or U.S. dollars (with U.S. dollar loans being limited to a maximum Canadian equivalent of $100 million). The Canadian dollar portion of the debt bears interest at rates approximating the prime rate of a Canadian chartered bank, while the U.S.

portion of the debt bears interest at LIBOR rates. At June 30, 2009 approximately $229.2 million was still available under this line. This facility is due on August 15, 2009.

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

In August 2009, the REIT secured a commitment to renew the general operating facility of $300 million for a two-year period due August 15, 2011.

(b) A secured construction financing facility for the REIT's development project, the Bow (the "Bow Facility"). The Bow facility consists of a non-revolving term construction credit facility in the amount of $425 million available by way of prime loans, bankers' acceptances and/or letters of credit. Borrowing under this facility is subject to the satisfaction of certain conditions including those set out in note 8 of the financial statements. The initial maturity date of the Bow facility is October 22, 2012;

The REIT entered into an interest rate swap that is intended to limit its interest rate exposure during the term of the Bow construction financing facility. The expected annual effective interest rate for this facility, including the cost of the swap, is 6.90%. The fair value of this interest rate swap as at June 30, 2009 is $5.8 million and has been recorded as an asset resulting in an unrealized gain recognized in income for the three and six months ended June 30, 2009.

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

Bank indebtedness decreased by $93.3 million from $112.9 million at December 31, 2008 to $19.6 million at June 30, 2009. The change is primarily as a result of the issuance of the Non-Convertible Debentures offset by the cash required for properties under development.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased by $32.7 million from $129.3 million at December 31, 2008 to $162.0 million at June 30, 2009. The change is mostly due to an increase in accruals and tenant inducements relating to properties under development and income properties. These accruals at June 30, 2009 totalled $76.9 million as compared to $48.8 million at December 31, 2008. There was an increase of $7.1 million of rents received in advance as compared to December 2008. The total interest accrued to date on the non-recourse mortgages under default is $7.4 million (December 31, 2008 - $2.8 million). There is also a general increase in other payables and accruals relating to transactions occurring in the normal course of business operations.

Future Income Tax Liability

The SIFT rules (as defined in income taxes on page 12) resulted in the REIT including a future income tax liability of $141.1 million in the consolidated balance sheet at June 30, 2009, with a corresponding future income tax expense of $6.1 million reflected as a charge to consolidated earnings for the six months ended June 30, 2009 and a future income tax expense of $0.9 million reflected as a charge to other comprehensive income. Temporary differences expected to reverse in or after 2011 have been measured using a tax rate of 30.5% in 2011 and 29% thereafter.

EQUITY

Unitholders' Equity

Unitholders' equity remained virtually unchanged between December 31, 2008 and June 30, 2009. The net earnings for the period, proceeds received from the REIT's direct unit purchase plan and the equity component of the unsecured debentures were offset by distributions paid to unitholders and the change in accumulated other comprehensive loss.

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

LIQUIDITY AND CAPITAL RESOURCES

Funds from Operations and Adjusted Funds from Operations

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

The use of FFO and AFFO, combined with the required GAAP presentations, have been presented for the purpose of improving the understanding of operating results of Trusts by the investing public. Management believes that AFFO is a meaningful measure of operating performance as it rejects the assumption that the value of real estate investments diminishes predictably over time and it adjusts for items included in GAAP net earnings that may not necessarily be the best determinants of the Trusts operating performance, such as gains or losses on the sale of, and provisions for impairment against long-lived income properties, gains and losses from foreign exchange, swap and option derivatives.

Funds From Operations and Adjusted Funds from Operations	Three months ended June 30		Six months ended June 30	
(in thousands of dollars except per unit amounts)	**2009**	2008	**2009**	2008
Net earnings	**$18,901**	$32,973	**$40,999**	$72,586
Add (deduct)				
Mortgage interest accruals on non-recourse mortgage defaults	**2,624**	-	**4,965**	-
Depreciation and amortization	**31,242**	31,171	**63,393**	60,849
Impairment loss on income properties	**6,763**	-	**14,992**	-
Gain on sale of income properties	**(6,441)**	(10,221)	**(6,865)**	(24,628)
Future income taxes	**1,544**	2,986	**6,059**	4,769
Net earnings attributable to non-controlling interest	**1,290**	1,736	**1,697**	3,894
Operating income from discontinued operations	**(1,857)**	(3,330)	**(3,109)**	(6,932)
Funds from operations – continuing operations	**$54,066**	$55,315	**$122,131**	$110,538
Funds from operations – discontinued operations	**1,938**	4,205	**4,252**	8,347
Funds from operations	**$56,004**	$59,520	**$126,383**	$118,885
Add (deduct)				
Straight-lining of contractual rent	**(2,750)**	(5,150)	**(6,771)**	(9,358)
Rent and mortgage premium amortization	**667**	(169)	**1,147**	(332)
Effective interest rate accretion	**1,227**	284	**2,171**	778
Unit-based compensation	**118**	-	**181**	-
Additions to tenant expenditures	**(666)**	(2,589)	**(2,282)**	(3,969)
Capital expenditures	**(2,531)**	(1,138)	**(2,653)**	(1,276)
(Gains)/ losses on foreign exchange and swap derivatives	**6,325**	1,175	**1,430**	1,175
Adjusted funds from operations	**$58,394**	$51,933	**$119,606**	$105,903
Weighted average number of units (in thousands of units)	**147,784**	138,672	**147,641**	137,178
Diluted weighted average number of units (in thousands of units)	**156,395**	139,317	**156,252**	137,816
Funds from operations per unit (basic – adjusted for conversion of non-controlling interest)	**$0.379**	$0.429	**$0.856**	$0.867
Funds from operations per unit (diluted)	**$0.358**	$0.427	**$0.809**	$0.863
Adjusted funds from operations per unit (basic - adjusted for conversion of non-controlling interest)	**$0.395**	$0.375	**$0.810**	$0.772
Adjusted funds from operations per unit (diluted)	**$0.373**	$0.373	**$0.765**	$0.768
Cash distributions paid per unit	**$0.180**	$0.360	**$0.360**	$0.720
Cash distributions paid per unit as a % of basic AFFO	**45.6%**	96.0%	**44.4%**	93.3%

The primary reasons for the increase in adjusted funds from operations per unit for both the three and six months ended June 30, 2009 as compared to the same periods in 2008 are due to the following items:

- two completed developments were transferred to income properties. 5025 Creekbank in Mississauga, ON was completed on January 1, 2009 and 500 Bayly in Ajax, ON was completed on May 1, 2008;
- a change in foreign exchange rates used to convert U.S. portfolio's earnings. For the six months ended June 20, 2009, the average exchange rate was $1.21 as compared to $1.01 for the six months ended June 30, 2008;
- lower management fees and current income taxes;
- an increase of $61 million in the mortgage receivables balance from December 2008 has resulted in higher interest income;
- a net increase in rents due to contractual rent step ups and new leases;
- lower expenditures for non-recoverable capital projects and tenant costs in 2009 as compared to 2008; and
- lower contractual mortgage and bank interest together with an increase in capitalized interest.

These increases were partially offset by:

- higher interest expense due to the issuance of debentures in both 2008 and 2009;
- a total of 19 properties were sold between January 1, 2008 and June 30, 2009;
- lower income from properties tenanted by Boscov's Department Stores and Circuit City due to the termination of their respective leases; and
- unit dilution from the issue of 8.7 million units in June 2008 along with units issued under the REIT's distribution reinvestment plan since June 2008.

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

	Three months ended June 30		Six months ended June 30	
(in thousands of dollars)	**2009**	2008	**2009**	2008
Adjusted funds from operations	**$58,394**	$51,933	**$119,606**	$105,903
Straight-lining of contractual rent	**2,750**	5,150	**6,771**	9,358
Rent amortization and mortgage premium	**(667)**	169	**(1,147)**	332
Effective interest rate accretion	**(1,227)**	(284)	**(2,171)**	(778)
Unit-based compensation	**(118)**	-	**(181)**	_
Additions to tenant expenditures	**666**	2,589	**2,282**	3,969
Capital expenditures	**2,531**	1,138	**2,653**	1,276
Gains (losses) on foreign exchange and swap derivatives	**(6,325)**	(1,175)	**(1,430)**	(1,175)
Funds from operations	**$56,004**	$59,520	**$126,383**	$118,885
Funds from operations – discontinued operations	**(1,938)**	(4,205)	**(4,252)**	(8,347)
Operating income from discontinued operations	**1,857**	3,330	**3,109**	6,932
Change in other non-cash operating items	**(10,783)**	(10,846)	**(6,009)**	203
Rent amortization	**1,109**	288	**2,038**	602
Mortgage interest accruals on non-recourse mortgage defaults	**(2,624)**	-	**(4,965)**	-
Other	**(1,145)**	242	**(1,082)**	788
(Gains) losses on foreign exchange and swap derivatives	**6,325**	1,175	**1,410**	1,175
Effective interest rate accretion	**1,347**	61	**2,376**	61
Depreciation and amortization included within discontinued operations	**81**	875	**1,143**	1,415
Cash provided by operations	**$50,233**	$50,440	**$120,151**	$121,714

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

Capital Resources

The cash provided by operations of $120.2 million for the six months ended June 30, 2009 represents the primary source of funds to pay cash distributions to unitholders totalling $53.2 million for the six months ended June 30, 2009.

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

(in thousands of dollars)	**Three months ended June 30, 2009**	**Six months ended June 30, 2009**	Year ended December 31, 2008	Year ended December 31, 2007
Cash provided by operating activities	**$50,233**	**$120,151**	$235,122	$196,589
Net earnings (loss)	**18,901**	**40,999**	97,706	(2,193)
Actual cash distributions paid or payable relating to the period	**26,602**	**53,151**	204,108	179,980
Distributions paid as a return of capital pursuant to the Plan of Arrangement	**-**	**-**	132,500	-
Total distributions paid	**26,602**	**53,151**	336,608	179,980
Excess of cash provided by operating activities over cash distributions paid	**23,631**	**67,000**	31,014	16,609
Shortfall of net earnings over cash distributions paid	**(7,701)**	**(12,152)**	(106,402)	(182,173)

For the three and six months ended June 30, 2009 and years ended December 31, 2008 and 2007, cash provided by operating activities exceeded cash distributions. Management expects this trend to continue.

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

Proceeds from the issuance of securities and debentures together with proceeds on disposition of income properties have been used to fund acquisitions and capital expenditures of $2.7 million and properties under development of $147.7 million for the six months ended June 30, 2009.

Subject to market conditions, management expects to be able to meet all of the Trusts' ongoing obligations and to finance short term development commitments through the issue of new securities, as well as by using conventional real estate debt, selling or refinancing other assets, short-term financing from the bank and the Trusts' cash flow from operations. As at June 30, 2009, the Trusts are not in default or arrears on any of their obligations including distribution payments, interest or principal payments on debt and any debt covenant with the exception of the non payment of principal and interest for the seven Boscov's Department Stores, the Circuit City distribution warehouse and the three Bruno's Supermarkets mortgages following the non receipt of rental revenue. The REIT has handed over control of seven of the properties to the respective mortgage companies and is waiting for them to legally release the REIT's subsidiaries from their debt obligations.

Short-term bank financing has been provided by the same chartered bank since the REIT's inception. This general operating facility is secured by income properties and management believes this facility will continue to be made available in the future as it represents a typical or standard loan facility provided by numerous financial institutions in the industry. At June 30, 2009, approximately $229.2 million was still available under this facility.

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

Other than the Bow development which is described in greater detail under "Funding of Future Commitments", the following is a summary of material contractual obligations of the Trusts (excluding mortgages related to discontinued operations) including payments due for the next 4.50 years and thereafter:

	Payments Due by Period				
Contractual Obligations (in thousands of dollars)	2009	2010-2011	2012-2013	2014 and thereafter	Total
Long-term debt	$258,436	$291,287	$573,677	$1,804,922	$2,928,322
2013 Convertible debentures	-	-	115,000	-	115,000
Non-Convertible debentures	-	-	-	200,000	200,000
Total Contractual Obligations	$258,436	$291,287	$688,677	$2,004,922	$3,243,322

The REIT has no material capital or operating lease obligations.

Short Form Base Shelf Prospectus

On May 11, 2009, the Trusts issued a base shelf prospectus allowing the Trusts to offer and issue the following securities: (i) unsecured debt securities; (ii) subscription receipts exchangeable for Stapled Units and/or other securities of the Trusts; (iii) warrants exercisable to acquire Stapled Units and/or other securities of the Trusts; and (iv) securities comprised of more than one of Stapled Units, debt securities, subscription receipts and/or warrants offered together as a unit, or any combination thereof having an offer price of up to $500 million 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. On July 17, 2009, the Trusts filed Amendment No. 1 to the base shelf prospectus dated May 11, 2009, to provide that the securities that may be offered and issued thereunder include senior unsecured debt securities of the REIT.

Equity Distribution Agreement

On June 5, 2009, the Trusts entered into an equity distribution agreement with Canaccord Capital Corporation who will act as agent for the issuance and sale, from time to time at the discretion of the Trusts, over an approximate two year period, of Stapled Units up to a maximum of approximately $150 million by way of "at-the-market distributions" over the Toronto Stock Exchange ("TSX"). The timing of any sale over such approximate two year period, and the number of Stapled Units actually sold during such period, are at the discretion of the Trusts. Sales of Stapled Units, if any, pursuant to the agreement may be made in transactions that are deemed to be "at-the-market distributions" as defined in National Instrument 44-102-Shelf Distributions, including sales made directly on the TSX or other existing trading markets for the Stapled Units. The Stapled Units will be distributed at market prices prevailing at the time of sale of such Stapled Units (if any) and, as a result, prices may vary between purchasers and during the period of distribution.

Funding of Future Commitments

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

(in thousands of dollars)	Costs incurred to date	Remaining Costs	Budget
Land	$60,804	$ -	$60,804
Financing costs	9,808	49,422	59,230
Capitalized interest on the REIT's costs as incurred	46,782	168,940	215,722
Soft costs	96,784	88,923	185,707
Hard costs	346,245	716,114	1,062,359
Recoveries and other income	(2,381)	(110,784)	(113,165)
Contingency	-	76,065	76,065
Budget/ cost incurred to date	558,042	$988,680	1,546,722
Less capitalized interest on the REIT's costs incurred	(46,782)	(168,940)	(215,722)
Total budget/ costs incurred to date less capitalized interest	$511,260	$819,740	$1,331,000

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

Funds Required	
(In millions of dollars)	
To complete the Bow as per above	$820
Annual principal mortgage payments	242
Expected mortgage maturity repayments	46
	$1,108
Projected Source of Funds	
(In millions of dollars)	
Construction facility	$425
Issuance of 6.75% Series B convertible unsecured debentures (see “Subsequent Events”)	144
Cash retained from operations due to a reduction in distributions	200
Available cash and undrawn credit facilities	245
Bell Phase 3 mortgage payable (see “Subsequent Events”)	85
Collection of mortgages receivable	74
Current anticipated property sales	69
	$1,242

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

The REIT's capacity (as determined in the manner below) to fund future acquisitions, capital expenditures and commitments was in excess of $1.5 billion as at June 30, 2009. This represented the amount that could be funded by the REIT from debt, subject to market availability, before the REIT reached its maximum debt limitation of 65% of debt to its GBV of assets.

The following summarizes term debt maturities for existing mortgages:

Year	Mortgage Debt due on Maturity	Number of Mortgages	2009 Estimated Property Operating Income (1)	Loan to Value (2)
2009	$422	1	$69	46%
2010	20,590	8	5,325	31%
2011	70,246	11	16,994	31%
2012	277,529	21	46,387	45%
2013	102,278	10	22,718	34%
	$471,065	51	$91,493	39%

(1) Converting U.S. dollars to Canadian dollars at an exchange rate of 1.10

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

For 2009, there are three mortgages that mature during the balance of the year which total $38.8 million. Subsequent to June 30, 2009, two of these mortgages totalling $38.4 million were repaid in full. The above noted figures for 2009 are for the one remaining mortgage.

OFF-BALANCE SHEET ITEMS

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

At June 30, 2009, such guarantees amounted to $50.1 million (December 31, 2008 - $51.3 million), expiring between 2011 and 2017 and no amount has been provided for in the consolidated financial statements for these items. These amounts arise where the REIT has guaranteed a co-owner's share of the mortgage liability. The REIT, however, customarily guarantees or indemnifies the obligations of its nominee companies which hold separate title to each of its properties owned.

In addition, the REIT's guarantees remain in place for debts assumed by purchasers in connection with certain property dispositions, and will remain until such debts are extinguished or the lenders agree to release the REIT's covenants. At June 30, 2009, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk is approximately $9.6 million (December 31, 2008 - $14.3 million) with expiries between 2009 and 2034. There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in the financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Where appropriate, the REIT also uses forward contracts to lock in lending rates on certain anticipated mortgages. This strategy provides certainty in the rate of interest on borrowings when the REIT is involved in transactions that close further into the future than during the normal timeframe of a transaction. At June 30, 2009, the REIT had no forward contracts in place.

SECTION III

SUMMARY OF QUARTERLY RESULTS

(unaudited) (in thousands of dollars except per unit amounts)	**June 30, 2009**	March 31, 2009[1]	December 31, 2008[1]	September 30, 2008[1]
Rentals from income properties	$149,772	$157,142	$152,463	$147,883
Mortgage interest and other income	1,175	1,825	843	1,018
Net property operating income	28,575	30,614	26,566	26,095
Net earnings (loss) from continuing operations	10,908	20,484	5,197	(27,872)
Net earnings (loss) per unit from continuing operations				
(basic)	0.08	0.14	0.04	(0.20)
(diluted)	0.08	0.14	0.03	(0.20)
Net earnings (loss)	$18,901	$22,097	$45,826	($20,706)
Net earnings (loss) per unit				
(basic)	0.13	0.16	0.33	(0.15)
(diluted)	0.13	0.15	0.32	(0.15)

	June 30, 2008[1]	March 31, 2008[1]	December 31 2007[1]	September 30, 2007[1]
Rentals from income properties	$149,489	$146,302	$148,626	$142,351
Mortgage interest and other income	643	596	555	769
Net property operating income	27,688	27,651	27,072	25,727
Net earnings from continuing operations	20,093	22,532	42,951	20,221
Net earnings per unit from continuing operations				
(basic)	0.15	0.18	0.34	0.16
(diluted)	0.15	0.18	0.34	0.16
Net earnings	$32,973	$39,613	$48,691	$23,860
Net earnings per unit				
(basic)	0.25	0.31	0.38	0.19
(diluted)	0.25	0.31	0.38	0.19

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

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

SECTION IV

CRITICAL ACCOUNTING ESTIMATES

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

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

Impairment of Assets

The REIT is required to write down to fair value any of its income properties that were determined to have been impaired. The analysis required is dependent upon a review of estimated undiscounted future cash flows from operations over the anticipated holding period. This review involves subjective assumptions of, among other things, estimated occupancy and rental rates, all of which can affect the ultimate value of the property. In the event these factors result in a carrying value that exceeds the sum of future undiscounted cash flows expected to result from the ongoing use and ultimate residual value of the properties, an impairment would be recognized. In the first quarter of 2009, an impairment of $8.2 million was recognized with regards to the property of which Circuit City is the tenant. During the second quarter of 2009, a further impairment of $6.8 million was recorded with regards to the Bruno's Supermarkets. During the third quarter of 2008, the REIT recognized an impairment of $50.2 million with regard to the properties leased by Boscov's Department Stores. During the fourth quarter of 2008, the REIT recognized an impairment of a further $3.0 million with regards to the properties leased by Boscov's Department Stores. This change was primarily due to an increase in foreign exchange rates for Q4 2008. In addition, upon the expiry of an option to purchase the remaining interest in the Neways office building, an additional $0.4 million was written off during Q4 2008.

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

Depreciation of Income Properties

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

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

Property Acquisitions

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

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

Income Tax

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

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

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

Tax Consequences to U.S. Holders

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

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

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

CHANGES TO SIGNIFICANT ACCOUNTING POLICIES FOR 2009

Effective January 1, 2009, the Trusts adopted the new recommendation of The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, on a retroactive

basis by adjusting the prior year. This new section replaces Section 3062, Goodwill and Other Intangible Assets, and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of Section 3064 had no impact on Finance Trust.

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

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

Balance Sheet

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

Statement of Earnings

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

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

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is to be applied retrospectively without adjustment of prior periods in interim and annual financial statements for periods ending on or after January 20, 2009. The Trusts adopted this recommendation in their fair value determinations effective January 1, 2009. The

adoption of this guidance did not have any material effect on the Trusts' results, financial position or cash flows.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

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

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

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

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

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

Initial Assessment Phase

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

Detailed Assessment Phase

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

- identification, evaluation and selection of accounting policies necessary for the Trusts to change over to IFRS-IASB;

- identification of the business impacts resulting from the identified accounting differences. Business impacts to be considered in the Trusts' project plan are: business units, control processes, information technology, unitholders, regulatory matters and others as identified during this phase;

- assessment of IFRS 1 elections. This aspect of the project plan will follow the detailed assessment of the financial statement items and will be revisited periodically throughout the project;

- an initial training analysis and information systems impact analysis are also components of this phase, and are currently being documented.

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

Design Phase

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

Testing & Implementation Phase

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

Status of Convergence Plan

Currently, impact assessment is underway and progressing according to plan. The Trusts' combined financial performance and financial position as disclosed in the current GAAP financial statements may be significantly different when presented in accordance with IFRS.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

No changes were made to the design of the Trusts' internal control over financial reporting during the three months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Trusts' internal control over financial reporting.

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

At June 30, 2009, the CEO and CFO of the Trusts have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Trusts are made known to the CEO and CFO and have designed internal controls over financial reporting to provide reasonable assurance regarding the liability of financial reporting and preparation of financial statements in accordance with GAAP.

SECTION V

RISKS AND UNCERTAINTIES

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

Unit Prices

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

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

Availability of Cash for Distributions

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

Development and Financing Risk Relating to The Bow Development

The REIT entered into agreements to develop the Bow consisting of approximately 2.0 million square foot office and retail complex in Calgary. The north and south block development budgeted to cost approximately $1.5 billion, are pre-leased to EnCana Corporation for an initial term of approximately 25 years. Construction commenced during the spring of 2007 and is expected to be completed in 2012. The REIT is currently bearing the risk for construction overruns and project delays as the REIT does not have a fixed price contract for the entire project cost. To mitigate this, the REIT has entered into fixed price contracts amounting to approximately 77% of the hard cost budget. The REIT is also at risk for interest rate fluctuations on this project during the construction period. To mitigate this risk, the REIT entered into an interest rate swap which is intended to limit the interest rate to an effective annual rate of 6.9%.

The REIT was able to secure a $425 million construction facility during April 2009 The agreements and indentures governing indebtedness of this construction facility contain certain covenants and conditions applicable to the REIT, including without limitation, those requiring the REIT to maintain, at all times on a combined basis with Finance Trust, the following financial ratios (i) indebtedness to gross asset value of not greater than 0.65:1.0; (ii) debt service coverage of not less than 1.20:1.0 and (iii) unitholders equity of not less than the sum of $1.35 billion plus 75% of net cash proceeds received in connection with any equity offering after April 24, 2009. In addition, the REIT is required to have not less than $906 million of cash equity being invested by the REIT and to have in place a committed revolving credit facility of not less than $300 million (subject to reduction to $200 million in certain circumstances) with a maturity date of not less

than 11 months from the date of the initial borrowing under the facility, and imposing on the REIT certain restrictions including without limitation regarding: the disposition of the Bow project, lands related to the Bow, or any other properties or assets in excess of certain thresholds; the creation of liens or granting of negative pledges; creation or incurrence of debt; the making of distributions; the purchase or redemption of securities; the entering into of any merger or similar transaction with any person; changes of a fundamental nature (including senior management, business objectives, purposes or operations, capital structure, constating documents, and subordinated debt); the cancellation or waiver of material contracts; the making of any investment in excess of certain thresholds; the repayment or repurchase of any subordinated indebtedness; the involvement of other real estate development or construction projects in excess of certain thresholds; and changes to the Bow project budget. Included in the construction facility, the terms of which provide, among other things, that distributions (other than certain unit distributions) cannot exceed the lesser of (i) $0.72 per Stapled Unit and (ii) 60% of funds from operations (as defined for such purpose). As a result, the REIT is limited by such covenants and restrictions.

Liquidity Risk

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

Credit Risk and Tenant Concentration

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

The following table illustrates the REIT's 20 largest tenants (based on estimated future annualized gross revenue excluding the straight lining of contractual rent increases and discontinued operations) and the weighted average term remaining on their leases as at June 30, 2009:

	Tenant	% of rentals from income properties	Number of Locations	REIT owned sq.ft. (in 000's)	Lease term to maturity (years)
1.	Bell Canada	11.9	4	1,745	16.3
2.	TransCanada Pipelines Limited	7.1	2	950	11.8
3.	Telus Communications	5.7	2	943	14.0
4.	Bell Mobility	5.7	2	775	16.4
5.	Rona Inc.	3.7	14	2,151	10.4
6.	Versacold Logistics Canada Inc.	3.4	12	1,733	17.5
7.	Canadian Tire Corp.	3.4	4	2,189	17.3
8.	Royal Bank of Canada	3.3	4	451	3.4
9.	Lowes Companies Inc.	2.7	11	1,435	9.8
10.	Nestle USA	2.3	3	2,168	8.3
11.	Shell Oil Products	2.0	18	249	13.2
12.	Nestle Canada Inc.	1.8	1	170	10.2
13.	Marsh Supermarkets	1.7	9	548	17.4
14.	Purolator Courier	1.7	12	1,071	12.0
15.	Finning International Inc.	1.6	16	893	12.9
16.	Public Works of Canada	1.4	3	238	7.3
17.	Hudson's Bay Company	1.1	3	937	9.7
18.	BJ's Wholesale Club Inc.	1.1	4	452	12.8
19.	Sobey's Inc.	1.1	10	339	12.6
20.	Sony Pictures Entertainment Inc.	1.0	1	172	15.0
	Total	**63.7%**	**135**	**19,609**	

Interest Rate and Financing Risk

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

The REIT is exposed to financing risk on maturing mortgages, bank indebtedness and interest rate risk on its borrowings. It minimizes this risk by obtaining long-term, fixed rate debt to replace short-term floating rate borrowings. At June 30, 2009, the percentage of fixed rate debt to total debt was 99.4% (December 31, 2008 – 96.7%). In addition, the REIT matches the terms to maturity of its mortgages on specific properties to the corresponding lease terms to maturity as closely as possible. At June 30, 2009, the weighted average term to maturity of the mortgages was 8.7 years (December 31, 2008 - 9.3 years) compared to the remaining average lease term of 11.1 years (December 31, 2008 - 11.5 years). Only 2.9% of total mortgage principal will mature before the end of 2009. The REIT also minimizes financing risk by restricting total debt (subject to certain exceptions) to 65% of aggregate assets as well as by obtaining non-recourse debt wherever possible. At June 30, 2009, the debt to GBV ratio (as per the Declaration of Trust) was 53.7% (December 31, 2008 – 54.7%) while the percentage of non-recourse debt to total debt was 49.5% (December 31, 2008 – 51.4%).

Tax Risk

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

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

The REIT operates in the United States through U.S.Holdco which is capitalized with equity provided by the REIT and debt owed to Finance Trust. As at June 30, 2009, U.S. Holdco owed approximately USD $125.7 million to Finance Trust which is eliminated on the combined financial statements.

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

No statutory, judicial or administrative authority directly addresses the treatment of the Stapled Units or instruments similar to the Stapled Units for U.S. federal income tax purposes. As a result, the U.S. federal income tax consequences of the purchase, ownership and disposition of Stapled Units are unclear.

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 or estate taxes.

A foreign corporation will be classified as a passive foreign investment company ("PFIC") for United States federal income tax purposes if either (i) 75% or more of its gross income is passive income or (ii) on average

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

Finance Trust intends to qualify as a fixed investment trust for U.S. federal income tax purposes. However, there are limited legal authorities and precedents regarding fixed investment trust and there is no authoritative legal guidance with respect to the qualification of an investment trust with investments and terms similar to Finance Trust as a fixed investment trust. If the IRS or a court were to determine that Finance Trust should be treated instead as a partnership or a corporation, the tax consequences to the holders of Stapled Units could be adversely affected. No statutory, judicial or administrative authority directly addresses the treatment of the Stapled Units or instruments similar to the Stapled Units for U.S. federal income tax purposes. As a result, the U.S. federal income tax consequences of the purchase, ownership and disposition of Stapled Units are unclear.

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

Ability to Access Capital Markets

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

Dilution

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

Lease Rollover Risk

Lease rollover risk arises from the possibility that the REIT may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants upon lease expiry. Management's strategy is to sign creditworthy tenants to leases that are long-term in nature which assists in the REIT's attempt to fulfill its primary goal of maintaining a predictable cash flow. The REIT has relatively few short to medium term lease rollovers which is illustrated in the previously disclosed table (see "Overview") showing that leases representing only 13.3% of the REIT's total square footage expires by the end of 2013.

Construction Risks

It is likely that, subject to compliance with the Declaration of Trust, the REIT will be involved in various development projects. The REIT's obligations in respect of properties under construction, or which are to be

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

Debentures

The likelihood that purchasers of the 2013 Convertible Debentures and Non-Convertible 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 2013 Convertible Debentures and Non-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.

Mezzanine Financing Credit Risk

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

Currency Risk

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

Environmental Risk

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

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

Redemption Right

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

Unitholder Liability

The Declaration of Trust for both Trusts provide that unitholders will have no personal liability for actions of the Trusts and no recourse will be available to the private property of any Unitholder for satisfaction of any obligation or claims arising out of a contract or obligation of the Trusts. The Declarations of Trust provides that this lack of unitholder liability, where possible, must be provided for in certain written instruments signed by the REIT. In addition, legislation has been enacted in the Provinces of Ontario and certain other provinces that is intended to provide unitholders in those provinces with limited liability. However, there remains a risk, which the 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.

RELATED PARTY TRANSACTIONS

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

During the three months ended June 30, 2009, the REIT recorded fees pursuant to this agreement of $3.4 million (June 30, 2008 - $3.1 million), of which nil (June 30, 2008 - nil) was capitalized to the cost of the income properties acquired, $0.5 million (June 30, 2008 - $0.4 million) was capitalized to properties under development and $0.4 million (June 30, 2008 - $0.6 million) was capitalized to deferred leasing expenses. Approximately 94% of these fees are recoverable from tenants. The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the three months ended June 30, 2009, a further amount of $1.1 million (June 30, 2008 - $1.0 million) has been earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager. Of this amount, $1.1 million (June 30, 2008 - nil) has been waived by the Property Manager and nil (June 30, 2008 - $1.0 million) has been expensed in the consolidated statement of earnings. The waiving of the incentive fee by the Property Manager is effective for the entire 2009 fiscal year.

During the six months ended June 30, 2009, the REIT recorded fees pursuant to this agreement of $7.0 million (June 30, 2008 - $8.3 million), of which nil (June 30, 2008 - $0.5 million) was capitalized to the cost of the income properties acquired, $1.0 million (June 30, 2008 - $1.0 million) was capitalized to properties under development and $1.2 million (June 30, 2008 - $1.1 million) was capitalized to deferred leasing expenses. Approximately 97% of these fees are recoverable from tenants The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the six months ended June 30, 2009, a further amount of $2.2 million (June 30, 2008 - $2.0 million) has been earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager. Of this amount, $2.2 million (June 30, 2008 - nil) has been waived by the Property Manager and nil (June 30, 2008 - $2.0 million) has been expensed in the consolidated statement of earnings. The waiving of the incentive fee by the Property Manager is effective for the entire 2009 fiscal year.

Pursuant to the above agreements, as at June 30, 2009, $0.7 million (December 31, 2008 - $1.0 million) was payable to the Property Manager.

The REIT leases space to companies affiliated with the Property Manager. The rental income earned for the three months ended June 30, 2009 is $0.3 million (June 30, 2008 - $0.3 million) and for the six months ended June 30, 2009 is $0.6 million (June 30, 2008 - $0.6 million).

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

OUTSTANDING UNIT DATA

The beneficial interests in the Trusts are represented by a single class of units of each of the Trusts, which are unlimited in number. Each unit carries a single vote at any meeting of unitholders. As at August 13, 2009, there were 147,992,173 units of each Trust issued and outstanding.

A maximum of 5,800,000 units were authorized to be issued to the REIT's officers, employees and certain trustees under the REIT's unit option plan. All such options had been issued prior to June 30, 2003. On September 19, 2008, an amendment to the unit option plan was approved increasing the maximum units authorized by 3,000,000 to a total of 8,800,000 units. As at August 13, 2009, there were 3,054,666 options to purchase units outstanding of which 1,854,666 are fully vested.

SECTION VI

OUTLOOK

The past year has been an extremely challenging one for the REIT and its unitholders. Trying to secure funds for the Bow development at the height of the credit crunch proved to be exceedingly more difficult than was anticipated considering the fact that the project is 100% preleased to EnCana Corporation for a term of 25 years. In January 2009, the REIT took the painful but necessary step of cutting its distributions by 50%. In April of this year, the REIT successfully issued $200 million in debentures which was the bridge required to secure a construction facility of $425 million and in July 2009, the REIT issued $150 million of convertible debentures which was the final step necessary to ensure we have the financial capacity to complete this trophy project and pursue additional investment opportunities as they arise.

Our United States difficulties are now behind us as well. Tenants in 11 of our properties have rejected their leases under bankruptcy protection and we have effectively given back the loans to the lender on all of these properties. The remaining portfolio of 91 high quality properties are leased to creditworthy tenants with no mortgage expiries coming up for renewal until 2012.

The overall outlook for the Canadian economy remains positive. Common wisdom seems to be that the worst of the recession is now behind us and we can expect a slow but steady recovery going forward. Credit markets have finally begun to ease up which is evident by the 1st mortgage financing of $85 million that we have recently secured on Phase III of the Bell Canada Complex in Mississauga. In short, we are back in

business with our portfolio of high quality properties performing well and we are now able to explore various potential acquisitions in our attempt to capitalize on today's depressed real estate prices. Each passing day brings us that much closer to completion in 2012 of the Bow when EnCana Corporation will commence its first full year of occupancy and the fruits of our labour will finally be realized.

SUBSEQUENT EVENTS

In July 2009, the REIT sold a 164,000 square foot industrial building located in Mississauga, ON for gross proceeds of $11.8 million.

In July 2009, the REIT completed a mortgage financing in the principal amount of $85 million at a contracted interest rate of 6.5% per annum for a term of five years on an office property located in Mississauga, ON.

In July 2009, the REIT prepaid in full a vendor take-back mortgage (which was not due for repayment until December 31, 2009) on an industrial property in Ajax, ON in the principal amount of approximately $34.8 million, which was bearing interest at the rate of 6% per annum.

In July 2009, the REIT completed a public offering of $150 million of 6.75% Series B convertible unsecured subordinated debentures. The debentures mature on December 31, 2014. Each debenture is convertible into freely tradeable Stapled Units at the holders' option at a conversion price of $14.00 per Stapled Unit.

In July 2009 the REIT sold its 55% interest in an 85,000 square foot office building located in Springville, UT for gross proceeds of $8.6 million.

In August 2009, the REIT sold a 244,000 square foot industrial building located in Markham, ON for gross proceeds of $17 million.

In August 2009, the REIT secured a commitment to renew the general operating facility of $300 million for a two-year period due August 15, 2011.

ADDITIONAL INFORMATION

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