Summary Report to Unitholders: Third Quarter 2011

Financial Highlights

The following table includes non-International Financial Reporting Standards ("IFRS") information that should not be construed as an alternative to comprehensive income (loss) or cash provided by operations and may not be comparable to similar measures presented by other issuers as there is no standardized meaning of funds from operations ("FFO"), and adjusted funds from operations ("AFFO") under IFRS. Management believes that these are meaningful measures of operating performance. Readers are encouraged to refer to H&R's combined MD&A for further discussion of non-IFRS information presented.

	3 months ended September 30		9 months ended September 30	
	2011	2010	2011	2010
Rentals from investment properties (millions)	$169.6	$152.8	$478.7	$456.7
Net income (loss)	$58.3	($12.1)	$36.1	$436.0
FFO (millions) (1)	$70.2	$74.2	$204.1	$153.3
FFO per Stapled Unit (basic)	$0.43	$0.50	$1.30	$1.03
AFFO (millions) (1)	$62.9	$55.2	$177.3	$162.0
AFFO per Stapled Unit (basic)	$0.39	$0.37	$1.13	$1.08
Cash provided by operations (millions)	$104.1	$82.7	$300.5	$274.7
Cash distributions paid (millions) (2)	$31.1	$27.1	$87.8	$75.2
Distributions per Stapled Unit	$0.25	$0.21	$0.71	$0.57

(1) H&R's MD&A includes reconciliations of: net earnings to FFO; FFO to AFFO; and AFFO to cash provided by operations. Readers are encouraged to review such reconciliations in the MD&A.

(2) Cash distributions paid exclude distributions reinvested in units pursuant to H&R's unitholder distribution reinvestment plan and include the distributions paid to the Class B Limited Partnership unitholders who can exchange their units for Stapled Units.

Included in FFO and AFFO were lease terminations and sundry income of $1.0 million for the three months ended September 30, 2011 (2010 - nil) and $1.5 million for the nine months ended September 30, 2011 (2010 - $2.3 million).

Included in FFO and AFFO were additional recoveries for capital expenditures in excess of items expensed in property operating costs of $1.6 million for the three months ended September 30, 2011 (2010 - $2.0 million) and $2.6 million for the nine months ended September 30, 2011 (2010 - $7.6 million).

Included in FFO was a gain (loss) on extinguishment of debt of $5.0 million for the three months ended September 30, 2011 (2010 - $16.0 million) and $19.6 million for the nine months ended September 30, 2011 (2010 – ($21.2 million)).

Excluding the above items, FFO would have been $62.6 million ($0.38 per Stapled Unit) compared to $56.2 million ($0.38 per Stapled Unit) for the three months ended September 30, 2011 and 2010, respectively, and $180.4 million ($1.15 per Stapled Unit) compared to $164.6 million ($1.10 per Stapled Unit) for the nine months ended September 30, 2011 and 2010, respectively.

Excluding the above items, AFFO would have been $60.3 million ($0.37 per Stapled Unit) compared to $53.2 million ($0.35 per Stapled Unit) for the three months ended September 30, 2011 and 2010, respectively, and $173.2 million ($1.10 per Stapled Unit) compared to $152.1 million ($1.02 per Stapled Unit) for the nine months ended September 30, 2011 and 2010, respectively.

Capital Transaction Highlights

During the third quarter 2011, H&R REIT:

- purchased a retail property in South Carolina, U.S. for U.S. $11.3 million;
- purchased an additional piece of land held for development for the Heart Lake project in Caledon, Ontario for $5.3 million;
- sold four industrial properties for gross proceeds of $17.1 million for a net gain on sale of $3.3 million.

Subsequent to September 30, 2011, H&R REIT:

- acquired a state-of-the-art office tower in Long Island City, New York known as Two Gotham Center for U.S. $415.5 million. The recently completed 22 storey Class A office tower comprises 661,000 rentable square feet of office space, 100% leased to the City of New York for an initial term of 20 years with contracted rental escalations of approximately 10% every 5 years, providing a bondable income stream secured by the superior AA credit of the City of New York, as well as an additional 9,000 square feet of prime ground floor retail space. The REIT secured a mortgage commitment of U.S. $250 million for a ten year term at an attractive annual fixed interest rate of 4.25% reflecting the high quality and security of the cash flow;
- completed a public offering of $100 million of 4.90% Series E Senior Debentures due in February 2018;
- and Finance Trust agreed to sell to a syndicate of underwriters, on a bought deal basis, 8,500,000 Stapled Units for gross proceeds of $187 million and $75 million of 4.50% unsecured convertible debentures due December 31, 2016. Closing of these offerings is expected to occur in the latter part of November 2011.

Development Highlights

The REIT is currently developing the Bow in Calgary, AB. The Bow is a 2-million square foot head office complex pre-leased, on a triple net basis, to EnCana Corporation for a term of 25 years. The total annualized year one projected income from the Bow is expected to be approximately $94 million. Rent escalations will be 0.75% per annum on the office space and 1.5% per annum on the parking income for the full 25-year term. Occupancy is currently expected to occur in tranches commencing in the first quarter of 2012 with full occupancy expected by the fourth quarter of 2012. The North Block budget has been revised to $1.61 billion to reflect IFRS changes and costs associated with the revised estimated occupancy tranches. As at September 30, 2011, H&R REIT had incurred approximately $1.21 billion of the $1.38-billion budgeted costs (excluding interest costs capitalized for accounting purposes).

Distribution Policy Adopted
H&R previously announced that the trustees have adopted a distribution policy pursuant to which the monthly combined distribution is intended to be increased as shown in the following table:

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

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

Tom Hofstedter
President and Chief Executive Officer
November 14, 2011

Unaudited Condensed Combined Interim Financial Statements of

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

For the three and nine months ended September 30, 2011 and 2010

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

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

	September 30 2011	December 31 2010
Assets		
Real estate assets		
Investment properties (note 4)	**$ 5,036,052**	$ 4,582,616
Properties under development (note 5)	**1,545,441**	1,268,331
Accrued rent receivable	**158,293**	156,938
	6,739,786	6,007,885
Mortgages and amount receivable	**3,000**	3,000
Other assets (note 6)	**40,467**	34,683
Cash and cash equivalents (note 7)	**20,278**	10,730
	$ 6,803,531	$ 6,056,298
Liabilities and Unitholders' Equity		
Liabilities		
Mortgages payable (note 8)	**$ 2,949,696**	$ 2,706,707
Debentures payable (note 9)	**1,148,175**	965,828
Below-market leases	**72,242**	57,658
Non-controlling interest (note 10)	**114,515**	105,652
Unit options payable (note 11(a))	**5,713**	3,409
Derivative instruments (note 12)	**6,422**	3,317
Accounts payable and accrued liabilities	**163,889**	170,544
Bank indebtedness (notes 13)	**207,363**	89,045
	4,668,015	4,102,160
Unitholders' equity	**2,135,516**	1,954,138
Subsequent events (note 24)		
	$ 6,803,531	$ 6,056,298

See accompanying notes to unaudited condensed combined interim financial statements

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

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Property operating income:				
Rentals from investment properties (note 15)	**$ 169,582**	$ 152,778	**$ 478,737**	$ 456,727
Property operating costs	**(58,031)**	(50,674)	**(160,026)**	(148,724)
	111,551	102,104	**318,711**	308,003
Finance costs:				
Finance income	**215**	248	**812**	2,324
Finance cost - operations (note 16)	**(45,335)**	(42,749)	**(131,461)**	(131,434)
Gain (loss) on extinguishment of debt (notes 4 and 9(c))	**4,995**	15,973	**19,568**	(21,206)
Gain (loss) on change in fair value (note 17)	**21,973**	(58,990)	**(39,187)**	(93,899)
	(18,152)	(85,518)	**(150,268)**	(244,215)
Amortization and impairment expense (note 18)	**(46,614)**	(14,498)	**(132,817)**	(72,073)
Trust expenses	**(2,459)**	(5,952)	**(9,903)**	(12,210)
Gain on sale of investment properties	**3,286**	7	**3,286**	3,616
Net gain (loss) on foreign exchange	**10,734**	(3,530)	**7,264**	(2,359)
Transaction costs on issuance of convertible debentures	**-**	(4,535)	**-**	(4,535)
	(53,205)	(114,026)	**(282,438)**	(331,776)
Net income (loss) before income taxes	**58,346**	(11,922)	**36,273**	(23,773)
Income tax recovery (expense) (note 22)	**(45)**	(185)	**(212)**	459,725
Net income (loss)	**58,301**	(12,107)	**36,061**	435,952
Other comprehensive income (loss):				
Unrealized (gain) loss on translation of U.S. denominated foreign operations	**14,081**	(3,055)	**9,364**	(2,494)
Transfer of realized loss on cash flow hedges to net income	**96**	94	**287**	278
Deferred income taxes (note 22)	**-**	-	**-**	915
	14,177	(2,961)	**9,651**	(1,301)
Total comprehensive income (loss)	**$ 72,478**	$ (15,068)	**$ 45,712**	$ 434,651

See accompanying notes to unaudited condensed combined interim financial statements.

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

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

UNITHOLDERS' EQUITY	Value of Units	Accumulated net income	Accumulated distributions	Accumulated other comprehensive income (loss) (note 14)	Total
Unitholders' equity, January 1, 2010	$ 2,182,289	$ 727,175	$ (1,371,328)	$ (3,254)	$ 1,534,882
Proceeds from issuance of units	11,552	-	-	-	11,552
Net income	-	435,952	-	-	435,952
Distributions to unitholders (note 11(b))	-	-	(82,127)	-	(82,127)
Conversion of convertible debentures	748	-	-	-	748
Other comprehensive loss	-	-	-	(1,301)	(1,301)
Unitholders' equity, September 30, 2010	2,194,589	1,163,127	(1,453,455)	(4,555)	1,899,706
Proceeds from issuance of units	23,943	-	-	-	23,943
Net income	-	60,648	-	-	60,648
Distributions to unitholders	-	-	(31,569)	-	(31,569)
Conversion of convertible debentures	6,271	-	-	-	6,271
Other comprehensive loss	-	-	-	(4,861)	(4,861)
Unitholders' equity, December 31, 2010	2,224,803	1,223,775	(1,485,024)	(9,416)	1,954,138
Proceeds from issuance of units	**229,457**	**-**	**-**	**-**	**229,457**
Issue cost	**(8,500)**	**-**	**-**	**-**	**(8,500)**
Net income	**-**	**36,061**	**-**	**-**	**36,061**
Distributions to unitholders (note 11(b))	**-**	**-**	**(108,026)**	**-**	**(108,026)**
Conversion of convertible debentures (note 9)	**22,735**	**-**	**-**	**-**	**22,735**
Other comprehensive income	**-**	**-**	**-**	**9,651**	**9,651**
Unitholders' equity, September 30, 2011	**$ 2,468,495**	**$ 1,259,836**	**$ (1,593,050)**	**$ 235**	**$ 2,135,516**

See accompanying notes to unaudited condensed combined interim financial statements.

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

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

	Nine Months Ended September 30	
	2011	2010
Cash provided by (used in):		
Operations:		
Net income	**$ 36,061**	$ 435,952
Items not affecting cash:		
Finance cost - operations (note 16)	**131,461**	131,434
Rent amortization of tenant inducements (note 15)	**750**	702
Amortization and impairment (note 18)	**132,817**	72,073
Gain on sale of investment properties	**(3,286)**	(3,616)
Loss (gain) on extinguishment of debt (notes 4 and 9(c))	**(19,568)**	21,206
Deferred income tax recovery (note 22)	**-**	(460,138)
Loss on change in fair values (note 17)	**39,187**	93,899
Unrealized (gain) loss on foreign exchange	**(7,263)**	2,357
Unit-based compensation (note 11(a))	**4,254**	6,020
Change in other non-cash operating items (note 19)	**(13,869)**	(25,204)
	300,544	274,685
Investing:		
Properties under development	**(237,141)**	(294,665)
Investment properties:		
Net proceeds on disposition of investment properties	**12,104**	22,223
Acquisitions (note 4)	**(239,773)**	(48,652)
Capital expenditures (note 4)	**(4,500)**	(11,943)
Leasing expenses and tenant inducements (note 4)	**(7,458)**	(4,270)
Mortgages receivable	**-**	60,789
Restricted cash	**9,064**	9,169
	(467,704)	(267,349)
Financing:		
Bank indebtedness	**118,318**	(7,362)
Interest paid	**(167,780)**	(148,120)
Mortgages payable:		
New mortgages payable	**86,234**	11,140
Principal repayments	**(145,646)**	(79,123)
Proceeds from issuance of debentures payable	**178,475**	450,459
Repayment of debentures payable (note 9(c))	**-**	(227,752)
Proceeds from issuance of units, net	**194,868**	903
Finance cost - Class B LP unit distributions (note 16)	**(3,874)**	(3,099)
Distributions to unitholders (note 11(b))	**(83,887)**	(72,134)
	176,708	(75,088)
Increase (decrease) in cash and cash equivalents	**9,548**	(67,752)
Cash and cash equivalents, beginning of year (note 7)	**10,730**	109,505
Cash and cash equivalents, end of period (note 7)	**$ 20,278**	$ 41,753

Supplemental cash flow information (note 19)

See accompanying notes to unaudited condensed combined interim financial statements.

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

The REIT is an unincorporated open-ended trust and Finance Trust is an unincorporated investment trust both domiciled in Canada. The REIT owns, operates and develops commercial properties across Canada and in the United States. The principal office and centre of administration of the Trusts is located at 3625 Dufferin Street, Suite 500, Toronto, Ontario M3K 1N4. Unitholders of each Trust participates pro rata in distributions of income and, in the event of termination of such Trust, participates pro rata in the net assets remaining after satisfaction of all liabilities of such Trust.

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

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

- The units of the Trusts are stapled (as noted above), resulting in the two Trusts being under common ownership;
- A support agreement between the Trusts ensures that until such time as an event of uncoupling occurs, when units are issued by the REIT, units must also be issued by Finance Trust simultaneously so as to maintain the stapled unit structure;
- The sole activity of Finance Trust is to provide capital funding to H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco"), a wholly owned U.S. subsidiary of the REIT; and
- The investment activities of Finance Trust are restricted in its Declaration of Trust to providing such funding to U.S. Holdco and to make temporary investments of excess funds.

1. Basis of preparation:

(a) Statement of compliance

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

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

1. Basis of preparation (continued):

An explanation of how the transition to IFRS from Canadian generally accepted accounting principles ("GAAP") has affected the previously reported financial position, financial performance and cash flows of the Trusts is provided in note 3 for the period ended September 30, 2010. Refer to the March 31, 2011 unaudited condensed combined interim financial statements for the effect of the Trusts' transition to IFRS for the periods January 1, 2010 and December 31, 2010.

These unaudited condensed combined interim financial statements were approved by the Board of Trustees of each Trust on November 14, 2011.

(b) Basis of measurement

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

(i) Derivative financial instruments;

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

(iii) Certain financial instruments.

(c) Functional currency and presentation

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

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

(d) Use of estimates and judgements

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

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

(i) Use of estimates

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

1. Basis of preparation (continued):

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

(ii) Use of judgements

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

- Leases

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

- Income taxes

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

- Investment property componentization

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

- Tenant improvements

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

2. Significant accounting policies:

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

(a) *Basis of combination*

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

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

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

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

The combination of the Trusts does not result in the elimination of the equity of Finance Trust as neither of the Trusts hold any interest in the other. The equity of the Trusts is presented by way of combining the two together.

(b) *Basis of consolidation*

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

(c) *Investment properties*

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

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

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

2. Significant accounting policies (continued):

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

(d) *Properties under development:*

Property under development for future use as investment property is accounted for as investment property under IAS 40, *Investment Property*. The cost of properties under development includes direct development costs, realty taxes and borrowing costs that are directly attributable to the development. Borrowing costs associated with direct expenditures on properties under development are capitalized. Borrowing costs relating to the purchase of a site or property acquired for redevelopment are also capitalized. The amount of borrowing costs capitalized is determined first by reference to borrowing specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. The REIT considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally this occurs upon completion of construction and receipt of all necessary occupancy and other material permits. Where the REIT has pre-leased space as of or prior to the start of the development and the lease requires the REIT to construct tenant improvements which enhance the value of the property, practical completion is considered to occur on completion of such improvements.

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

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

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

2. Significant accounting policies (continued):

(f) *Depreciation and amortization*

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

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

(g) *Impairment*

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

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

(h) *Revenue recognition:*

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

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

2. **Significant accounting policies (continued):**

(i) *Income taxes:*

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

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

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

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

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

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

2. Significant accounting policies (continued):

(j) *Unit option plan:*

The REIT has a unit option plan available for officers, employees and trustees as disclosed in note 11(a). The unit option plan is considered to be a cash-settled liability under IFRS 2, *Share-based Payment* ("IFRS 2") and as a result is measured at each reporting period and at settlement date at its fair value. The fair value of the amount payable to participants in respect of the unit option plan is recognized as an expense with a corresponding increase or decrease in liabilities, over the period that the employees unconditionally become entitled to payment. Any change in the fair value of the liability is recognized as a component of trust expenses.

(k) *Cash and cash equivalents:*

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

(l) *Restricted cash:*

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

(m) *Foreign currency translation:*

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

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

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

(n) *Financial instruments:*

(i) Non-derivative financial assets

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

2. Significant accounting policies (continued):

The Trusts derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Trusts have a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Non-derivative financial liabilities

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

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

(iii) Derivative financial liabilities

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

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

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

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

(o) *Stapled Units:*

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

2. Significant accounting policies (continued):

(p) *Finance costs:*

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

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

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

Standards issued but not yet effective up to the date of issuance of these financial statements are described below. This description is of standards and interpretations issued, which the Trusts reasonably expect to be applicable at a future date. The Trusts intend to adopt these standards when they become effective.

Financial Instruments: Classification and Measurement ("IFRS 9")

IFRS 9 as issued reflects the International Accounting Standards Board's ("IASB's") work to date on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address hedge accounting and impairment. The Trusts have not yet determined the impact of IFRS 9 on its unaudited condensed combined interim financial statements.

Consolidated Financial Statements ("IFRS 10")

The IASB recently issued its new suite of consolidation standards, including IFRS 10, which replaces IAS 27, *Consolidated and Separate Financial Statements.* Under IFRS 10, an investor controls an investee when: (i) it is exposed or has rights to variable returns from its involvement with that investee; (ii) it has the ability to affect those returns through its power over that investee; and (iii) there is a link between power and returns. This standard is effective for annual periods beginning on or after January 1, 2013. The Trusts have not yet determined the impact of IFRS 10 on its unaudited condensed combined interim financial statements.

Joint Arrangements ("IFRS 11")

On May 12, 2011, the IASB issued IFRS 11. This new standard replaces IAS 31, *Interests in Joint Ventures*. The new standard eliminates the option to proportionately consolidate interests in certain types of joint ventures. This may impact the jointly controlled entities which the Trusts currently proportionately consolidate under IFRS. The new standard is not expected to have an impact on unitholders' equity or net income going forward but is expected to have a presentation impact on the financial statements. This new standard is effective for the Trusts' year end beginning January 1, 2013.

2. **Significant accounting policies (continued):**

Disclosures of Interests in Other Entities ("IFRS 12")

The IASB issued IFRS 12 to replace the existing disclosure requirements for entities that have interests in subsidiaries, joint arrangements and associates. This standard also contains disclosure requirements for entities that have interests in unconsolidated structured entities. The disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013. The Trusts have not yet determined the impact of IFRS 12 on its unaudited condensed combined interim financial statements.

Fair Value Measurement ("IFRS 13")

In May 2011, the IASB issued IFRS 13. This new standard replaces the fair value measurement contained in individual IFRSs with a single source of fair value measurement guidance. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and requires the fair value hierarchy to be applied to all fair value measurements and expands disclosure requirements for fair value measurements to provide information which allows users to assess the methods and inputs used to develop fair value measurements. The standard is effective for the Trusts' year end beginning January 1, 2013. The Trusts have not yet determined the impact of IFRS 13 on its unaudited condensed combined interim financial statements.

3. **Explanation of transition to IFRS:**

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

The accounting policies set out in note 2 have been applied in preparing the unaudited condensed combined interim financial statements for the three and nine months ended September 30, 2011 and the comparative information presented in these unaudited condensed combined interim financial statements for the three and nine months ended September 30, 2010.

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

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

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

(iii) Impact on the statement of cash flows

(iv) Notes to the IFRS reconciliations

3. Explanation of transition to IFRS (continued):

(i) Reconciliation of unitholders' equity as previously reported under Canadian GAAP to IFRS at September 30, 2010

	Note 3(iv)	Value of Units	Accumulated Net Income	Accumulated Distributions	Contributed Surplus	Equity Component of Warrants and Debentures	Accumulated Other Comprehensive Loss	Total
Unitholders' equity, **September 30, 2010** as reported under Canadian GAAP		$ 2,193,738	$ 844,753	$ (1,453,455)	$ 915	$ 56,565	$ (32,132)	$ 1,610,384
Opening IFRS adjustments, January 1, 2010	*	-	44,181	-	-	(50,093)	27,128	21,216
Fair value as deemed cost	a	-	(26,880)	-	-	-	-	(26,880)
Reversal of impairment of properties taken on January 1, 2010	b	-	50,108	-	-	-	-	50,108
Depreciation on impaired properties	b	-	1,284	-	-	-	-	1,284
Accrued rent receivable	c	-	(1,387)	-	-	-	-	(1,387)
Fair value of debentures payable	d	195	(59,962)	-	-	(6,472)	-	(66,239)
Unit-based compensation	e	656	(5,105)	-	(915)	-	-	(5,364)
Non-controlling interest	f	-	(20,663)	-	-	-	-	(20,663)
Net loss on foreign exchange	h	-	(37)	-	-	-	37	-
Deferred income taxes	j	-	336,835	-	-	-	412	337,247
Sub- total of IFRS adjustments		851	318,374	-	(915)	(56,565)	27,577	289,322
Unitholders' equity, **September 30, 2010,** as reported under IFRS		$ 2,194,589	$ 1,163,127	$ (1,453,455)	$ -	$ -	$ (4,555)	$ 1,899,706

* Refer to the March 31, 2011 unaudited condensed combined interim financial statements for an explanation of these adjustments.

3. Explanation of transition to IFRS (continued):

(ii) Reconciliation of comprehensive income as previously reported under Canadian GAAP to IFRS for the three and nine months ended September 30, 2010

		Three months ended September 30, 2010			Nine months ended September 30, 2010		
	Note 3(iv)	**As reported under GAAP**	Effect of transition to IFRS	**Restated under IFRS**	**As reported under GAAP**	Effect of transition to IFRS	**Restated under IFRS**
Property operating income:							
Rentals from investment properties	a,c,g,i	$ 152,743	$ 35	$ 152,778	$ 455,310	$ 1,417	$ 456,727
Property operating costs	g	(50,654)	(20)	(50,674)	(148,404)	(320)	(148,724)
		102,089	15	102,104	306,906	1,097	308,003
Finance cost:							
Finance income		248	-	248	2,324	-	2,324
Finance cost - operations	d,f	(44,166)	1,417	(42,749)	(135,256)	3,822	(131,434)
Gain (loss) on extinguishment of debt		15,973	-	15,973	(21,206)	-	(21,206)
Gain (loss) on change in fair value	d,f	(1,114)	(57,876)	(58,990)	(8,169)	(85,730)	(93,899)
		(29,059)	(56,459)	(85,518)	(162,307)	(81,908)	(244,215)
Amortization and impairment expense	a,b,g,i	(31,466)	16,968	(14,498)	(94,182)	22,109	(72,073)
Trust expenses	e	(2,288)	(3,664)	(5,952)	(7,105)	(5,105)	(12,210)
Gain on sale of investment properties	g	-	7	7	-	3,616	3,616
Transaction costs on issuance of convertible debentures	d	-	(4,535)	(4,535)	-	(4,535)	(4,535)
Net gain on foreign exchange	h	(3,524)	(6)	(3,530)	(2,322)	(37)	(2,359)
		(66,337)	(47,689)	(114,026)	(265,916)	(65,860)	(331,776)
Net loss before income taxes, non-controlling interest and discontinued operations		35,752	(47,674)	(11,922)	40,990	(64,763)	(23,773)
Income tax recovery (expense)	j	(185)	-	(185)	122,890	336,835	459,725
Net income (loss) before non-controlling interest and discontinued operations		35,567	(47,674)	(12,107)	163,880	272,072	435,952
Non-controlling interest	f	(1,366)	1,366	-	(5,684)	5,684	-
Net income (loss) from continuing operations		34,201	(46,308)	(12,107)	158,196	277,756	435,952
Net income from discontinued operations	g	153	(153)	-	3,563	(3,563)	-
Net income (loss)		34,354	(46,461)	(12,107)	161,759	274,193	435,952
Other comprehensive income (loss):							
Unrealized loss on translation of self-sustaining foreign operations		(3,061)	6	(3,055)	(2,531)	37	(2,494)
Transfer of realized loss on cash flow hedges to net income		94	-	94	278	-	278
Deferred income taxes		-	-	-	503	412	915
		(2,967)	6	(2,961)	(1,750)	449	(1,301)
Total comprehensive income (loss)		$ 31,387	$ (46,455)	$ (15,068)	$ 160,009	$ 274,642	$ 434,651

3. Explanation of transition to IFRS (continued):

(iii) Impact on the statement of cash flows

The IFRS adjustments made to the comparative combined statement of comprehensive income (loss) for the three and nine months ended September 30, 2010 (as described above) have been made to the combined statement of cash flows as at the same date. There were no other significant IFRS transition differences noted.

(iv) Notes to the IFRS reconciliations

(a) Investment properties - fair value as deemed cost

The REIT elected to apply the fair value as deemed cost for certain properties as at January 1, 2010.

The increased amortization expense of $9,519 and $28,658 for the three and nine months ended September 30, 2010, respectively, as a result of the REIT's election, was included in amortization and impairment expenses. The resulting decreased rent amortization of tenant inducements of $541 and $1,778 for the three and nine months ended September 30, 2010, respectively, has increased rentals from investment properties.

(b) Impairment of investment properties

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

This adjustment included a reversal of an impairment loss recognized of $26,543 and $50,108 in the three and nine months ended September 30, 2010, respectively, which was included in amortization and impairment expense. The resulting decreased amortization expense of $136 and $1,284 for the three and nine months ended September 30, 2010, respectively, was included in amortization and impairment expenses.

(c) Accrued rent receivable

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

This adjustment decreased rent smoothing by $869 and $1,387 for the three and nine months ended September 30, 2010, respectively.

3. Explanation of transition to IFRS (continued):

(d) Convertible debentures

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

This adjustment eliminated the effective interest rate accretion of $2,558 and $6,921 for the three and nine months ended September 30, 2010, respectively. This adjustment also increased the loss on fair value of convertible debentures by $42,923 and $62,348 for the three and nine months ended September 30, 2010, respectively, and resulted in the expensing of transaction costs on issuance of the 2020 convertible debentures by $4,535 for the three and nine months ended September 30, 2010.

(e) Unit-based compensation

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

This adjustment increased trust expenses by $3,664 and $5,105 for the three and nine months ended September 30, 2010, respectively.

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

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

3. Explanation of transition to IFRS (continued):

The total effect of reclassifying the non-controlling interest was $14,723 for the three months ended September 30, 2010 and $20,663 for the nine months ended September 30, 2010 as follows:

	Three months ended September 30 2010	Nine months ended September 30 2010
Finance cost	$ 1,141	$ 3,099
Loss on change in fair value	14,953	23,382
Non-controlling interests' share of earnings		
Continuing operations	(1,366)	(5,684)
Discontinued operations	(5)	(134)
	$ 14,723	$ 20,663

(g) Discontinued operations

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

The effect of reclassifying discontinuing operations on the statement of comprehensive income for the three and nine months ended September 30, 2010 is as follows:

	Three months ended September 30 2010	Nine months ended September 30 2010
Rentals from investment properties	$ 171	$ 442
Property operating costs	(20)	(320)
Amortization and impairment expense	-	(41)
Gain on sale of investment properties	7	3,616
Non-controlling interest from discontinued operations	(5)	(134)
Net income from discontinued operations	(153)	(3,563)
	$ -	$ -

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

(h) Net loss on foreign exchange

The foreign exchange gain or loss recorded in net income as a result of exchanging Finance Trust's U.S. dollar note receivable from U.S. Holdco is not eliminated on combination as U.S. Holdco is a U.S. denominated foreign operation of the REIT, which results in the foreign exchange on the note payable being reported in accumulated other comprehensive income. This adjustment increased (decreased) the net gain on foreign exchange by ($6) and ($37) for the three and nine months ended September 30, 2010, respectively.

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

Under Canadian GAAP, the purchase price of an acquired property was recorded in several components, including intangible assets and liabilities for above- and below-market leases. These assets and liabilities were amortized against revenue over the life of the underlying leases. Under IFRS, these assets and liabilities are amortized in amortization and impairment expense. This adjustment decreased amortization of above- and below-market rents and increased rental from investment properties by $192 and $584 for the three and nine months ended September 30, 2010, respectively.

(j) Deferred income taxes

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

The adjustment to the reversal of the deferred income tax liability decreased the income tax expense by $nil and $336,835 for the three and nine months ended September 30, 2010, respectively.

4. **Investment properties:**

	September 30 2011	December 31 2010
Opening balance, beginning of year	**$ 4,582,616**	$ 4,621,419
Acquisitions	**567,630**	166,660
Expenditures capitalized to building improvements	**4,500**	15,371
Additions to leasing expenses and tenant inducements	**7,458**	5,517
Amortization and impairment expense	**(129,620)**	(164,670)
Impairment reversal (loss)	**(3,947)**	86,303
Investment properties legal title transferred to lenders	**(49,067)**	(82,378)
Change in foreign exchange	**56,482**	(65,606)
Closing balance, end of period	**$ 5,036,052**	$ 4,582,616

4. Investment properties (continued):

September 30, 2011	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 959,310	$ -	$ 959,310
Buildings and improvements	3,660,513	(428,528)	3,231,985
Paving and equipment	120,350	(66,056)	54,294
Intangible assets	978,933	(216,193)	762,740
Tenant inducements	14,924	(5,145)	9,779
Leasing expenses	29,413	(11,469)	17,944
	$ 5,763,443	$ (727,391)	$ 5,036,052

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

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.

During the nine months ended September 30, 2011 the lenders to five U.S. investment properties (September 30, 2010 - five properties) previously occupied by Bruno's Supermarkets LLC and Boscov's Department Store (September 30, 2010 - Circuit City and Boscov's Department Store) accepted title to such U.S. investment properties, thereby releasing the REIT from any further obligation with respect to the mortgages on such properties. The REIT recorded a gain on the extinguishment of this debt of $4,995 for the three months ended September 30, 2011 (September 30, 2010 - $15,973) and $19,568 for the nine months ended September 30, 2011 (September 30, 2010 - $17,628).

4. Investment properties (continued):

Acquisitions:

During the nine months ended September 30, 2011, the REIT acquired eight investment properties (December 31, 2010 - 16 investment properties). These acquisitions have been recorded by the acquisition method with the results of operations included in these unaudited condensed combined interim financial statements from the date of acquisition.

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

	September 30 2011	December 31 2010
Assets		
Land	**$ 88,796**	$ 35,308
Building	**393,880**	100,801
Paving and equipment	**2,782**	4,173
Intangible in-place lease costs	**56,696**	16,253
Above-market leases	**4,379**	8,485
Customer relationship value	**20,721**	1,640
	567,254	166,660
Liabilities		
Mortgages payable, net of mark to market adjustments	**309,500**	82,495
Intangible below-market leases	**18,357**	3,743
Net assets acquired and settled by cash	**$ 239,397**	$ 80,422

During the nine months ended September 30, 2011, the REIT incurred additional costs of $376 in respect to 2010 acquisitions which is not included in the above table.

Fair value disclosure:

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

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

	Canada Fair Value	United States Fair Value	Total Fair Value	Net Book Value*
September 30, 2011	**$ 4,918,015**	**$ 1,363,005**	**$ 6,281,020**	**$ 5,122,103**
December 31, 2010	4,334,526	1,167,478	5,502,004	4,681,896

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

4. Investment properties (continued):

The following methods and key assumptions apply to the disclosure above:

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

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

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

(iv) External independent appraisals were completed for 96.7% of properties as at January 1, 2010. For the December 31, 2010 appraisals, 19.6% of the portfolio was valued by professional external appraisers, and as at September 30, 2011 the professional external appraisers valued 20.1% of the portfolio. The remainder of the portfolio is valued by the REIT's internal valuation team.

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

The REIT has utilized the following weighted average capitalization rates in the fair value of the investment properties (excluding properties under development):

	Overall Capitalization Rate				Discount Rate			Terminal Capitalization Rate		
	Range	Canada	United States	Total	Canada	United States	Total	Canada	United States	Total
September 30, 2011	**6.00%-9.75%**	**6.69%**	**7.60%**	**6.87%**	**7.54%**	**8.22%**	**7.68%**	**7.01%**	**7.97%**	**7.21%**
December 31, 2010	6.25% -10.00%	6.98%	7.89%	7.17%	7.85%	8.45%	7.97%	7.36%	8.22%	7.54%

5. Properties under development:

Project	Address	September 30 2011	December 31 2010
The Bow (note 23(a))	5th Ave. at Centre Street, Calgary, AB	**$ 1,409,483**	$ 1,150,094
Heart Lake	Mayfield West Business Park, Caledon, ON	**86,111**	80,195
Airport Road	7900 Airport Road, Brampton, ON	**49,847**	38,042
		$ 1,545,441	$ 1,268,331

The estimated fair value of the REIT's properties under development as at September 30, 2011 is approximately $1,673,000 (December 31, 2010 - $1,449,000). The fair value of the Bow was determined by using a 5.50% capitalization rate on the first full year's operating income less the cost to complete. Heart Lake and Airport Road were valued at the estimated market value per acre.

5. Properties under development (continued):

	September 30 2011	December 31 2010
Balance, beginning of year	$ 1,268,331	$ 794,534
Acquisitions	16,250	-
Development including capitalized interest	260,860	473,797
Balance, end of period	$ 1,545,441	$ 1,268,331

6. Other assets:

	September 30 2011	December 31 2010
Restricted cash	$ 10,042	$ 19,106
Accounts receivable	7,810	7,420
Prepaid expenses and sundry assets	22,615	6,932
Derivative instruments (note 12)	-	1,225
	$ 40,467	$ 34,683

7. Cash and cash equivalents:

Cash and cash equivalents at September 30, 2011 includes cash on hand of $11,649 (December 31, 2010 - $6,785) and bank term deposits of $8,629 (December 31, 2010 - $3,945) at rates of interest varying between 0.90% to 1.00% (2010 - 0.93% to 1.00%).

8. Mortgages payable:

The mortgages payable are secured by investment properties and letters of credit in certain cases, bearing fixed interest with a contractual weighted average rate of 6.0% (December 31, 2010 - 6.2%) per annum and maturing between 2011 and 2035. Included in mortgages payable at September 30, 2011 are U.S. dollar denominated mortgages of U.S. $869,290 (December 31, 2010 - U.S. $824,066). The Canadian equivalents of these amounts are $912,754 (December 31, 2010 - $815,826).

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:

	September 30 2011
Years ending December 31:	
2011*	$ 29,011
2012	374,499
2013	210,327
2014	287,441
2015	333,894
2016	395,841
Thereafter	1,290,829
	2,921,842
Mortgages payable due on demand **	21,283
Financing costs and mark-to-market adjustment arising on acquisitions	6,571
	$ 2,949,696

* For the balance of the year

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

9. Debentures payable:

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

						September 30 2011	December 31 2010
	Maturity	Contractual interest rate	Effective interest rate	Conversion price	Face value	Carrying value	Carrying value
Convertible Debentures (a)							
2013 Convertible Debentures	June 30, 2013	6.65%	6.65%	$ 23.11	$115,000	**$119,025**	$121,325
2014 Convertible Debentures	December 31, 2014	6.75%	6.75%	14.00	133,524	**201,621**	203,038
2017 Convertible Debentures	June 30, 2017	6.00%	6.00%	19.00	170,156	**195,679**	188,125
2020 Convertible Debentures	June 30, 2020	5.90%	5.90%	23.50	99,990	**101,990**	102,500
					518,670	**618,315**	614,988
Senior Debentures (b)							
Series A Senior Debentures	February 3, 2015	5.20%	5.40%	-	115,000	**114,284**	114,154
Series B Senior Debentures	February 3, 2017	5.90%	6.06%	-	115,000	**114,157**	114,073
Series C Senior Debentures	December 1, 2018	5.00%	5.30%	-	125,000	**122,783**	122,613
Series D Senior Debentures	June 27, 2016	4.78%	4.96%	-	180,000	**178,636**	-
					535,000	**529,860**	350,840
Non-Convertible Debentures (c)	-	11.50%	12.90%	-	-	-	-
					$1,053,670	**$1,148,175**	$965,828

The carrying value of the Convertible Debentures is determined using the ask price on September 30, 2011 and December 31, 2010.

(a) *Convertible Debentures:*

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

(b) *Senior Debentures*

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

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

9. Debentures payable (continued):

(c) *Non-Convertible Debentures:*

In April 2009, the REIT issued $200,000 of unsecured debentures (the "Non-Convertible Debentures"). In February 2010, the REIT repaid the outstanding Non-Convertible Debentures for a total repurchase price of $229,989. The repurchase price included accrued interest of $2,237. The REIT recognized a one-time non-recurring charge to the consolidated statement of income of $38,834, representing the difference between the repurchase price, excluding accrued interest expense, and the carrying value of the Non-Convertible Debentures of $188,918.

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

	September 30 2011	December 31 2010
Convertible Debentures (a)		
Carrying value, beginning of year	$ 614,988	$ 465,888
Issued - 2020 Convertible Debentures	-	100,000
Conversion - 2014 Convertible Debentures*	(17,220)	(7,019)
Conversion - 2017 Convertible Debentures*	(5,505)	-
Conversion - 2020 Convertible Debentures*	(10)	-
Loss on fair value	26,062	56,119
Carrying value, end of period	618,315	614,988
Senior Debentures (b)		
Carrying value, beginning of year	350,840	-
Issued - Series A, B and C Senior Debentures	-	350,459
Issued - Series D Senior Debentures	178,475	-
Accretion adjustment	545	381
Carrying value, end of period	529,860	350,840
Non-Convertible Debentures (c)		
Carrying value, beginning of year	-	188,767
Accretion adjustment	-	151
Redemption	-	(188,918)
Carrying value, end of period	-	-
	$ 1,148,175	$ 965,828

* The conversion amounts above equal $22,735.

10. Non-controlling interest:

Non-controlling interest represents the amount of equity related to the Class B LP units of HRLP, issued to participating vendors in exchange for properties acquired by HRLP. The accounts of HRLP are consolidated into the REIT, and thus included in the unaudited condensed combined interim financial statements. The Class B LP units are presented as a liability under IFRS and are measured at fair value through profit or loss. Fair value is determined by using the ask prices for the listed Stapled Units as all of the 5,437,565 Class B LP units of HRLP are exchangeable on a one-for-one basis, at the option of the holder, into Stapled Units. The ask price as at September 30, 2011 is $21.06 (December 31, 2010 - $19.43).

Holders of the Class B LP units of HRLP are entitled to receive distributions on a per unit amount equal to a per Stapled Unit amount provided to holders of Stapled Units. Under IFRS, these distributions are considered interest expense and are included in finance costs in the statement of comprehensive income (loss).

As a result of a reorganization in 2009, HRLP, the REIT, Finance Trust and H&R Portfolio LP Trust entered into an exchange and support agreement that provides, among other things, for (i) certain capital contributions to be made by the REIT in case HRLP has insufficient (a) funds to pay the required distributions on the Class B LP units of HRLP, or (b) U.S. Holdco Notes to pay the fair market value of the Finance Trust units required to be delivered upon exchange of any Class B LP unit; and (ii) the mechanics whereby Class B LP units may be exchanged for Stapled Units.

11. Unitholders' equity:

The following number of Stapled Units are issued and outstanding:

As at December 31, 2009	143,825,262
Issued under the Distribution Reinvestment Plan and Unit Purchase Plan (the "DRIP")	593,086
2014 Convertible Debentures converted into units (note 9(a))	39,496
Options exercised	86,766
As at September 30, 2010	144,544,610
Issued under the DRIP	220,988
2014 Convertible Debentures converted into units (note 9(a))	315,709
Options exercised	1,039,335
As at December 31, 2010	**146,120,642**
Issued under the DRIP	**1,173,055**
Issued on May 31, 2011 (at a price of $22.15 per unit)	**9,030,000**
2014 Convertible Debentures converted into units (note 9(a))	**821,665**
2017 Convertible Debentures converted into units (note 9(a))	**254,942**
2020 Convertible Debentures converted into units (note 9(a))	**425**
Options exercised	**274,835**
As at September 30, 2011	**157,675,564**

The weighted average number of basic Stapled Units for the three months ended September 30, 2011 is 157,257,875 (September 30, 2010 – 144,291,727) and for the nine months ended September 30, 2011 is 151,444,430 (September 30, 2010 - 144,066,402).

11. Unitholders' equity (continued):

(a) *Unit option plan:*

As at September 30, 2011, a maximum of 18,000,000 (December 31, 2010 - 8,800,000) Stapled Units were authorized to be issued to the REIT's officers, employees and certain trustees, of which 8,700,000 options (December 31, 2010 - 7,600,000 options) have been granted. The exercise price of each option approximated the market price of the Stapled Units on the date of grant and shall be increased by the amount, if any, by which (i) the fair market value of one Finance Trust unit at the time of exercise of such option, exceeds (ii) the fair market value of one Finance Trust unit at the time of grant of such option. The options vest at 33.3% per year from the grant date, will be fully vested after three years, and expire ten years after the date of the grant.

During the three months ended September 30, 2011, no options were granted and during the nine months ended September 30, 2011, 1,100,000 options were granted (December 31, 2010 – 600,000).

As described in note 2(j), under IFRS the unit option plan is considered a cash-settled plan with the value of the units recorded as a liability on the unaudited condensed combined interim statement of financial position. The liability is released to equity when the unit options are converted to REIT units. The liability is revalued each reporting date based on the trading value of the Stapled Units. The fair value of the employee unit options is measured using the Black-Scholes model. Measurement inputs include unit price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected distributions, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. The fair value of the vested unit option plan as at September 30, 2011 is $5,713 (December 31, 2010 - $3,409).

Unit-based compensation expense of $532 for the three months ended September 30, 2011 (September 30, 2010 - $3,975) and $4,254 for the nine months ended September 30, 2011 (September 30, 2010 - $6,020) was included in trust expenses in the statement of comprehensive income (loss).

11. Unitholders' equity (continued):

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

	September 30	2011	December 31	2010
	Units	**Weighted average exercise price**	Units	Weighted average exercise price
Outstanding, beginning of year	**1,560,333**	**$ 13.95**	2,086,434	$ 13.05
Granted	**1,100,000**	**20.20**	600,000	15.42
Exercised	**(274,835)**	**13.19**	(1,126,101)	13.06
Expired	**(66,665)**	**14.18**	-	-
Outstanding, end of period	**2,318,833**	**$ 17.00**	1,560,333	$ 13.95
Options exercisable, end of period	**693,833**	**$ 14.65**	410,333	$ 15.00

The options outstanding at September 30, 2011 are exercisable at varying prices ranging from $9.30 to $20.83 (December 31, 2010 - $9.30 to $16.56) with a weighted average remaining life of 8.5 years (December 31, 2010 - 8.4 years). The vested options are exercisable at varying prices ranging from $9.30 to $16.56 (December 31, 2010 - $9.30 to $16.56) with a weighted average remaining life of 7.4 years (December 31, 2010 - 7.7 years).

(b) *Distributions*

Under the REIT's Declaration of Trust, the total amount of income of the REIT to be distributed to unitholders for each calendar month shall be subject to the discretion of the trustees. The present intention of the trustees is to distribute and make payable to the unitholders all of the amount necessary to ensure that the REIT will not be liable to pay income tax under Part I of the Income Tax Act (Canada) for any year. For the three months ended September 30, 2011, the REIT declared per unit distributions of $0.23 (September 30, 2010 - $0.19) and for the nine months ended September 30, 2011 the REIT declared per unit distributions of $0.64 (September 30, 2010 - $0.50).

Pursuant to Finance Trust's Declaration of Trust, unitholders of Finance Trust are entitled to receive all of the Distributable Cash of Finance Trust, as defined in the Declaration of Trust. Distributable Cash means, subject to certain exceptions, all amounts received by Finance Trust less certain costs, expenses or other amounts payable by Finance Trust, and less any amounts which, in the opinion of the trustees, may reasonably be considered to be necessary to provide for the payment of any costs or expenditures that have been or will be incurred in the activities and operations of Finance Trust and to provide for payment of any tax liability of Finance Trust. Finance Trust paid per unit distributions of $0.02 for the three months ended September 30, 2011 (September 30, 2010 - $0.02) and $0.07 for the nine months ended September 30, 2011 (September 30, 2010 - $0.07).

11. Unitholders' equity (continued):

The details of the distributions are as follows:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Cash distributions to unitholders	**$ 29,777**	$ 25,943	**$ 83,887**	$ 72,134
Unit distributions (issued under the DRIP)	**9,532**	4,362	**24,139**	9,993
	$ 39,309	$ 30,305	**$ 108,026**	$ 82,127

(c) *Short form base shelf prospectus:*

On March 31, 2011, the Trusts issued a short form base shelf prospectus allowing the Trusts to offer and issue the following securities: (i) preferred units; (ii) unsecured debt securities; (iii) subscription receipts exchangeable for Stapled Units and/or other securities of the Trusts; (iv) warrants exercisable to acquire Stapled Units and/or other securities of the Trusts; and (v) securities comprised of more than one of Stapled Units, debt securities, subscription receipts and/or warrants offered together as a unit, or any combination thereof having an offer price of up to $2,000,000 in aggregate (or the equivalent thereof, at the date of issue, in any other currency or currencies, as the case may be) at any time during the 25-month period that the short form base shelf prospectus (including any amendments) remains valid. As at September 30, 2011, $200,015 Stapled Units have been issued under the short form base shelf prospectus and $100,000 of Senior unsecured debentures were issued in October 2011 (note 24(c)).

12. Derivative instruments:

		Fair value (liability) asset		Unrealized gain (loss) on derivative contracts *			
				Three months ended September 30		Nine months ended September 30	
		September 30 2011	December 31 2010	**2011**	2010	**2011**	2010
Foreign exchange forward contract	(a)	**$ (142)**	$ 1,225 **	**$ (1,587)**	$ 1,345	**$ (1,345)**	$ 132
Interest rate swap - the Bow Facility	(b)	**(5,508)**	(2,897)	**(1,870)**	(2,159)	**(2,611)**	(7,601)
Interest rate swap on one mortgage		**(772)**	(420)	**(218)**	(300)	**(306)**	(700)
		$ (6,422)	$ (2,092)	**$ (3,675)**	$ (1,114)	**$ (4,262)**	$ (8,169)

a) The REIT entered into a foreign exchange forward contract with a Canadian chartered bank effectively locking the REIT's rate to exchange U.S. $2,000 per month at 1.0402 for a two-year period expiring in April 2012.

b) The REIT entered into an interest rate swap that is intended to limit its interest rate exposure during the term of the Bow Facility (note 13(b)). As at September 30, 2011, the expected annual effective interest rate for the Bow Facility, including the cost of the swap, is 4.65% (September 30, 2010 - 6.90%).

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

** Derivative instruments in asset and liability positions are not presented on a net basis. When a derivative instrument is in an asset position, the amount is recorded in other assets (note 6).

13. Bank indebtedness:

The REIT has the following facilities:

(a) A general operating facility which is secured by fixed charges over certain investment properties due on December 31, 2012. The total facility as at September 30, 2011 is $300,000 (December 31, 2010 - $295,300) and can be drawn in either Canadian or U.S. dollars (to a maximum of $100,000 Canadian for U.S. borrowings). The amount available at September 30, 2011, after taking into account the bank indebtedness drawn of $51,706 (December 31, 2010 - $62,603) and the outstanding letters of credit and other items, is $191,374 (December 31, 2010 - $188,148). The Canadian dollar bank indebtedness bears interest at rates approximating the prime rate of a Canadian chartered bank. At September 30, 2011, the Canadian prime interest rate was 3.00% (December 31, 2010 - 3.00%) per annum.

Included in bank indebtedness at September 30, 2011 are U.S. dollar denominated amounts of $48 (December 31, 2010 - U.S. $101). The Canadian equivalents of these amounts are $50 (December 31, 2010 - $100). The U.S. dollar bank indebtedness bears interest at LIBOR rates.

(b) A secured construction financing facility for the REIT's development project, the Bow (the "Bow Facility"). The Bow Facility consists of a non-revolving term construction credit facility in the amount of $425,000 available by way of prime loans and/or bankers' acceptances. As at September 30, 2011, the REIT has drawn $155,657 (December 31, 2010 - $26,442) under the Bow Facility and the amount available at September 30, 2011 is $269,343 (December 31, 2010 - $398,558). The initial maturity date of the Bow Facility is October 22, 2012.

14. Accumulated other comprehensive income (loss):

	Cash flow hedges	Foreign operations	Total
Balance as at January 1, 2010	$ (3,254)	$ -	$ (3,254)
Transfer of realized loss on cash flow hedges to net income	278	-	278
Deferred income tax	915	-	915
Unrealized gain on translation of U.S. denominated foreign operation	-	(2,494)	(2,494)
Balance as at September 30, 2010	(2,061)	(2,494)	(4,555)
Transfer of realized loss on cash flow hedges to net income	94	-	94
Unrealized gain on translation of U.S. denominated foreign operation	-	(4,955)	(4,955)
Balance as at December 31, 2010	(1,967)	(7,449)	(9,416)
Transfer of realized loss on cash flow hedges to net income	**287**	**-**	**287**
Unrealized loss on translation of U.S. denominated foreign operation	**-**	**9,364**	**9,364**
Balance as at September 30, 2011	**$ (1,680)**	**$ 1,915**	**$ 235**

15. Rentals from investment properties:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Rentals from investment properties	**$ 170,188**	$ 151,911	**$ 479,231**	$ 452,659
Straight-lining of contractual rent	**(350)**	1,106	**256**	4,770
Rent amortization of tenant inducements	**(256)**	(239)	**(750)**	(702)
	$ 169,582	$ 152,778	**$ 478,737**	$ 456,727

16. Finance cost - operations:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Contractual interest on mortgages payable	**$ 43,529**	$ 42,194	**$ 125,547**	$ 128,761
Contractual interest on debentures payable	**15,257**	11,800	**44,794**	33,074
Interest on construction loans	**1,841**	2,013	**4,699**	6,093
Effective interest rate accretion	**(64)**	443	**787**	1,286
Bank interest and charges	**853**	909	**2,709**	1,852
Class B LP unit distributions	**1,359**	1,141	**3,874**	3,099
	62,775	58,500	**182,410**	174,165
Capitalized interest	**(17,440)**	(15,751)	**(50,949)**	(42,731)
	$ 45,335	$ 42,749	**$ 131,461**	$ 131,434

17. Finance cost - gain (loss) on change in fair values:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Gain (loss) on fair value of convertible debentures	**$ 22,440**	$ (42,923)	**$ (26,062)**	$ (62,348)
Gain (loss) on fair value of Class B LP units	**3,208**	(14,953)	**(8,863)**	(23,382)
Unrealized loss on derivative contracts (note 12)	**(3,675)**	(1,114)	**(4,262)**	(8,169)
	$ 21,973	$ (58,990)	**$ (39,187)**	$ (93,899)

18. Amortization and impairment expense:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Depreciation of investment properties	**$ 27,346**	$ 24,709	**$ 77,784**	$ 73,480
Amortization of intangible assets on acquisitions	**13,545**	10,144	**33,604**	30,211
Amortization of above- and below- market rents	**3,715**	5,261	**14,053**	15,796
Amortization of leasing expenses	**1,158**	927	**3,429**	2,694
Impairment (reversal) loss on investment properties*	**850**	(26,543)	**3,947**	(50,108)
	$ 46,614	$ 14,498	**$ 132,817**	$ 72,073

* The impairment loss recognized in the three and nine months ended September 30, 2011 relates to investment properties owned by the REIT where: (i) the major tenant occupying the property has either vacated or indicated their intention to vacate the property and the market leasing conditions are less favourable than the existing leasing terms, thereby reducing the value of the property or (ii) the REIT has entered into a lease with less favourable terms. The reversal of impairment for the three and nine months ended September 30, 2010 is due to changing market conditions for certain properties.

19. Supplemental cash flow information:

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

	Nine months ended September 30	
	2011	2010
Accrued rent receivable	**$ (1,523)**	$ (5,382)
Prepaid expenses and sundry assets	**(15,683)**	(14,116)
Accounts receivable	**(390)**	(3,087)
Accounts payable and accrued liabilities	**3,727**	(2,619)
	$ (13,869)	$ (25,204)

19. Supplemental cash flow information (continued):

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

	Nine months ended September 30	
	2011	2010
Acquisition of investment properties through assumption of mortgages payable, net of mark-to-market adjustments	**$ 309,500**	$ 74,479
Release of mortgage obligations upon lenders' consent	**(60,793)**	(93,099)
Release of mortgage interest obligation included in accounts payable and accrued liabilities	**(9,304)**	10,066
Non-cash release of mortgage payable on disposition of investment property	**(4,071)**	-
Non-cash transfer of investment properties to lenders	**49,067**	85,706
Non-cash distributions to unitholders (note 11(b))	**24,139**	9,993
Non-cash conversion of convertible debentures (note 9)	**22,735**	748
Increase (decrease) in accounts payable for properties under development	**(10,980)**	12,294
Increase (decrease) in accounts payable for tenant inducements	**(507)**	6,142
Non-cash proceeds on options exercised	**1,950**	656

20. Related party transactions:

H&R Property Management Ltd. (the "Property Manager"), a company partially owned by family members of the Chief Executive Officer, provides property management services for substantially all properties owned by the REIT, including leasing services, for a fee of 2% of gross revenue. The Property Manager also provides support services in connection with the acquisition, disposition and development activities of the REIT and is also entitled to an incentive fee. Acquisitions and development support services are provided for a fee of 2/3 of 1% of total acquisition and development costs. The support services relating to dispositions of investment properties are provided for a fee of 10% of the gain on sale of investment properties adjusted for the add back of accumulated depreciation and amortization. Services are provided by the Property Manager pursuant to a property management agreement which expires on January 1, 2015 with one automatic five-year extension.

During the three months ended September 30, 2011, the REIT recorded fees pursuant to this agreement of $4,574 (September 30, 2010 - $3,913), of which $149 (September 30, 2010 - $377) was capitalized to the cost of the investment properties acquired, $1,164 (September 30, 2010 - $698) was capitalized to properties under development and $170 (September 30, 2010 - $661) was capitalized to leasing expenses. The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the three months ended September 30, 2011, a further amount of $875 (September 30, 2010 - $625) has been earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager.

20. Related party transactions (continued):

During the nine months ended September 30, 2011, the REIT recorded fees pursuant to this agreement of $14,399 (September 30, 2010 - $11,099), of which $3,557 (September 30, 2010 - $787) was capitalized to the cost of the investment properties acquired, $1,733 (September 30, 2010 - $1,756) was capitalized to properties under development and $3,061 (September 30, 2010 - $1,508) was capitalized to leasing expenses. The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the nine months ended September 30, 2011, a further amount of $2,625 (September 30, 2010 - $1,875) has been earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager.

Pursuant to the above agreement, as at September 30, 2011, $2,539 (December 31, 2010 - $1,682) 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 September 30, 2011 is $347 (September 30, 2010 - $324) and for the nine months ended September 30, 2011 is $1,035 (September 30, 2010 - $990).

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

21. Segmented disclosures:

Segmented information on identifiable assets by geographic region and property operating income is outlined below.

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

Investment properties and properties under development:

	September 30 2011	December 31 2010
Canada	**$ 5,370,001**	$ 4,796,189
United States	**1,211,492**	1,054,758
	$ 6,581,493	$ 5,850,947

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Rentals from investment properties:				
Canada	**$ 140,441**	$ 126,629	**$ 394,531**	$ 381,063
United States	**29,141**	26,149	**84,206**	75,664
	$ 169,582	$ 152,778	**$ 478,737**	$ 456,727

22. Income tax recovery (expense):

	Three months ended September 30		Nine months ended September 30	
	2011	2010	**2011**	2010
Income tax expense included in the determination of net income from continuing operations:				
Current	**$ (45)**	$ (185)	**$ (212)**	$ (413)
Deferred	**-**	-	**-**	460,138
	(45)	(185)	**(212)**	459,725
Deferred income tax included in the determination of other comprehensive income	**-**	-	**-**	915
	$ (45)	$ (185)	**$ (212)**	$ 460,640

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

23. Commitments and contingencies:

(a) The REIT is currently constructing a two million square foot office building in Calgary, Alberta (the "Bow"), which is fully pre-leased to EnCana Corporation for a 25-year term. The REIT has committed to incurring additional construction and development costs for this project of approximately $230,000, including capitalized interest, over the remaining construction period. As at September 30, 2011, the total cost incurred on the project amounted to $1,409,483 (note 5) (December 31, 2010 - $1,150,094). This budget includes the construction of 1,360 parking stalls. It is currently expected that the building will be occupied in tranches commencing in Q1 2012 with full occupancy expected by Q4 2012. Any further delay in the delivery of the tranches could result in a penalty of $1.67 per square foot per month.

(b) In the normal course of operations, the REIT has issued letters of credit in connection with developments, financings, operations and acquisitions. As at September 30, 2011, the REIT has outstanding letters of credit totalling $56,895 (December 31, 2010 - $44,524), including $22,780 (December 31, 2010 - $17,939) which has been pledged as security for certain mortgages payable. These letters of credit are secured in the same manner as the bank indebtedness (note 13(a)).

23. Commitments and contingencies (continued):

(c) The REIT provides guarantees on behalf of third parties, including co-owners. As at September 30, 2011, the REIT issued guarantees amounting to $74,840 (December 31, 2010 - $41,307), expiring in 2016 (December 31, 2010 - expiring between 2011 and 2016), relating to the co-owner's share of mortgage liability. In addition, the REIT continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable until such debts are extinguished or the lenders agree to release the REIT's covenants. At September 30, 2011 the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $114,160 (December 31, 2010 - $116,357) which expires between 2013 and 2018 (December 31, 2010 - expires between 2013 and 2018). There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in these financial statements.

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

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

24. Subsequent events:

(a) In October 2011, the REIT purchased a 115,000 square foot retail property in Voorhees, New Jersey for a purchase price of U.S. $15,900. A mortgage payable of approximately U.S. $9,300 was assumed on closing.

(b) In October 2011, the REIT purchased a Class A office tower in Long Island City, New York for U.S. $415,500 and secured a U.S. $250,000 10-year mortgage at an annual interest rate of 4.25%.

(c) In October 2011, the REIT completed a public offering of $100,000 of 4.90% Series E Senior Debentures due February 2, 2018.

(d) In early November 2011, the REIT and Finance Trust agreed to sell to a syndicate of underwriters, on a bought deal basis, 8,500,000 Stapled Units for gross proceeds of $187,000 and $75,000 of 4.50% unsecured convertible debentures due December 31, 2016. Closing of these offerings is expected to occur in the latter part of November 2011.

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

For the three and nine months ended September 30, 2011

Dated: November 14, 2011

TABLE OF CONTENTS

SECTION I

Basis of Presentation	1
Forward-Looking Disclaimer	1
Non-IFRS Financial Measures	2
Overview	2
Financial Highlights	4
Key Performance Drivers	4
Portfolio Overview	5
Outlook	7
Adoption of International Financial Reporting Standards	8

SECTION II

Selected Annual Information	8
Discussion of Operations	9
Segmented Information	16
Assets	17
Liabilities	20
Equity	22
Funds from Operations	23
Adjusted Funds from Operations	25
Liquidity and Capital Resources	27
Off-Balance Sheet Items	29
Financial Instruments and Other Instruments	30

SECTION III

Summary of Quarterly Results	31

SECTION IV

Critical Accounting Estimates	31
Disclosure Controls and Procedures	33
Internal Control over Financial Reporting	33

SECTION V

Risks and Uncertainties	33
Outstanding Unit Data	36
Subsequent Events	37
Additional Information	37

SECTION I

BASIS OF PRESENTATION

Financial data included in this Management's Discussion and Analysis ("MD&A") of Results of Operations and Financial Position of H&R Real Estate Investment Trust (the "REIT") and H&R Finance Trust ("Finance Trust" and together with the REIT, the "Trusts") for the three and nine months ended September 30, 2011 includes material information up to November 14, 2011. Financial data provided has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The MD&A should be read in conjunction with the Unaudited Combined Consolidated Interim Financial Statements and appended notes for the three and nine months ended September 30, 2011, together with the annual Combined Financial Statements and appended notes and MD&A for the year ended December 31, 2010. All amounts in this MD&A are in thousands of Canadian dollars, except where otherwise stated. Historical results, including trends which might appear, should not be taken as indicative of future operations or results. Certain prior period items have been reclassified to conform with the presentation adopted in the current period.

FORWARD-LOOKING DISCLAIMER

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

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

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

All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements are made as of November 14, 2011 and the Trusts, except as required by applicable law, assume no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances.

NON-IFRS FINANCIAL MEASURES

Property operating income, same-asset property operating income, funds from operations ("FFO"), adjusted funds from operations ("AFFO") and gross book value ("GBV") are all supplemental financial measures used by management to track the Trusts' performance. Such measures are not recognized under IFRS and therefore do not have standardized meanings prescribed by IFRS. Management believes that these IFRS financial measures are a meaningful measure of operating performance as they reject the assumption that the value of real estate investments diminishes predictably over time. These non-IFRS financial measures should not be construed as alternatives to comparable financial measures calculated in accordance with IFRS. Further, the Trusts' method of calculating such supplemental financial measures may differ from the methods of other real estate investment trusts or other issuers and accordingly, such supplemental financial measures used by management may not be comparable to similar measures presented by other real estate investment trusts or other issuers. See "Funds from Operations" and "Adjusted Funds from Operations" for a reconciliation of IFRS measures to non-IFRS measures.

OVERVIEW

The REIT is an unincorporated open-ended trust created by a Declaration of Trust and governed by the laws of the Province of Ontario. Unitholders are entitled to have their REIT units comprising part of the Stapled Units redeemed at any time on demand payable in cash (subject to monthly limits) and/or *in specie*, provided that the corresponding Finance Trust units are being contemporaneously redeemed.

Finance Trust is an unincorporated investment trust. Finance Trust was established pursuant to the Plan of Arrangement (the "Plan of Arrangement") on October 1, 2008 as an open-ended limited purpose unit trust pursuant to its Declaration of Trust. Each issued and outstanding Finance Trust unit is "stapled" to a unit of the REIT on a one-for-one basis such that Finance Trust units and the REIT units trade together as stapled units ("Stapled Units"), and such Stapled Units are listed and posted for trading on the Toronto Stock Exchange ("TSX"). Apart from provisions necessary to achieve such stapling, each REIT unit and Finance Trust unit retains its own separate identity and is separately listed (but not posted for trading) on the TSX (unless there is an event of uncoupling, in which case Finance Trust units will cease to be listed on the TSX).

The REIT has two primary objectives:

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

The REIT's strategy to accomplish these two objectives is to accumulate a diversified portfolio of high quality income producing properties in Canada and the United States occupied by creditworthy tenants on a long-term basis. The REIT does not have any specific allocation targets as to property type, but rather focuses on creditworthy tenants with long-term leases.

The primary purpose of Finance Trust is to be a flow-through vehicle to allow the REIT to indirectly access the capital markets in a tax-efficient manner by indirectly borrowing money from the REIT's unitholders. Finance Trust's primary activity is to hold debt issued by H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco"), a wholly owned U.S. subsidiary of the REIT. As at September 30, 2011, Finance Trust holds U.S. $131.1 million of aggregate principal amount of notes payable by U.S. Holdco ("U.S. Holdco Notes"). Subject to cash flow requirements, Finance Trust intends to distribute to its unitholders, who are also unitholders of the REIT, all of its cash flow, consisting primarily of interest paid by U.S. Holdco, less administrative and other expenses and amounts to satisfy liabilities.

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

Pursuant to the provisions of the Declarations of Trust for Finance Trust and the REIT at all times each REIT unit must be ''stapled'' to a Finance Trust unit (and each Finance Trust unit must be ''stapled'' to a REIT unit) unless there is an "event of uncoupling" (as described below). As part of the Plan of Arrangement, as described in the REIT's information circular dated August 20, 2008, the REIT and Finance Trust entered into a support agreement (the "Support Agreement") which provided, among other things, for the co-ordination of the declaration and payment of all distributions so as to provide for simultaneous record dates and payment dates; for co-ordination so as to permit the REIT to perform its obligations pursuant to the REIT's Declaration of Trust, Unit Option Plan, Distribution Reinvestment Plan and Unit Purchase Plan ("DRIP") and Unitholder Rights Plan; for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable and permit the REIT to perform its obligations arising under

any security issued by the REIT (including securities convertible, exercisable or exchangeable into Stapled Units); for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable the REIT to perform its obligations or exercise its rights under its convertible debentures; and for Finance Trust to take all such actions and do all such things as are necessary or desirable to issue Finance Trust units simultaneously (or as close to simultaneously as possible) with the issue of REIT units and to otherwise ensure at all times that each holder of a particular number of REIT units holds an equal number of Finance Trust units, including participating in and cooperating with any public or private distribution of Stapled Units by, among other things, executing prospectuses or other offering documents.

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

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

Investment Restrictions

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

(a) U.S. Holdco Notes; and

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

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

FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars except per unit amounts)	**September 30, 2011**	December 31, 2010
Total assets	**$6,803,531**	$6,056,298
Debt to gross book value of assets (per the REIT's Declaration of Trust)	**48.9%**	47.3%
Debt to gross book value of assets (per the combined financial statements)	**55.9%**	55.4%
Stapled Units outstanding	**157,676**	146,121
Class B LP units of H&R Limited Partnership outstanding	**5,438**	5,438

	Three months ended September 30, 2011	Three months ended September 30, 2010
Property rental revenue	**$169,582**	$152,778
Property operating income	**111,551**	102,104
Adjusted funds from operations ("AFFO")	**62,903**	55,152
Weighted average number of basic Stapled Units for AFFO	**162,696**	149,729
AFFO per basic Stapled Unit	**0.39**	0.37
Distributions paid per Stapled Unit	**0.25**	0.21
Payout ratio per unit as a % of basic AFFO	**64.1%**	56.8%

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

KEY PERFORMANCE DRIVERS

OPERATIONS	Three months ended September 30	Office	Industrial	Retail	Total*
Occupancy as at September 30[1]	**2011**	**98.9%**	**98.6%**	**99.8%**	**98.9%**
	2010	98.9%	98.6%	99.9%	98.9%
Occupancy – same asset as at September 30[2]	**2011**	**99.0%**	**98.5%**	**99.9%**	**98.9%**
	2010	98.9%	98.6%	99.9%	98.9%
Average contractual rent per square foot for the three months ended September 30[3]	**2011**	**$19.79**	**$5.65**	**$13.11**	**$10.36**
	2010	$19.85	$5.70	$12.55	$10.12

* weighted average total

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

(2) Same asset refers to those properties owned by the REIT for the entire 21-month period ended September 30, 2011 and excludes properties sold and assets where tenants have filed for protection under Chapter 11 of the United States Bankruptcy Code, and where the REIT has subsequently handed over control of the subject properties to the non-recourse mortgage lender.

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

	September 30, 2011	December 31, 2010
Average remaining term to maturity of leases (years)	**10.3**	11.1
Average remaining term to maturity of mortgages payable (years)	**7.8**	8.0

PORTFOLIO OVERVIEW

The geographic diversification of the REIT's portfolio (excluding properties where tenants have filed for protection under Chapter 11 of the United States Bankruptcy Code and where the REIT has subsequently handed over control of the property to the non-recourse mortgage lenders) as at September 30, 2011 is outlined in the charts below:

NUMBER OF PROPERTIES	Ontario	United States	Alberta	Quebec	Other	Total
Office	23	5	4	1	4	37
Industrial	49	17	19	12	20	117
Retail	32	87	5	5	3	132
Total	104	109	28	18	27	286

Square Feet (in thousands)	Ontario	United States	Alberta	Quebec	Other	Total
Office	6,124	509	1,406	452	884	9,375
Industrial	9,252	7,352	2,810	2,978	1,280	23,672
Retail	1,895	5,013	515	498	524	8,445
Total	17,271	12,874	4,731	3,928	2,688	41,492

PROPERTIES UNDER DEVELOPMENT
(in thousands of Canadian dollars)

Project	Address	**September 30, 2011**	December 31, 2010
The Bow	5th Ave. at Centre Street, Calgary, AB	**$1,409,483**	$1,150,094
Heart Lake	Mayfield West Business Park, Caledon, ON	**86,111**	80,195
Airport Road	7900 Airport Rd., Brampton, ON	**49,847**	38,042
		$1,545,441	$1,268,331

MORTGAGES PAYABLE	Periodic Amortized Principal ($000's)	Principal on Maturity ($000's)	Total Principal ($000's)	% of Total Principal	Weighted Average Interest Rate on Maturity
2011*	$26,531	$2,480	$29,011	1.0%	5.4%
2012	105,801	268,698	374,499	12.8%	6.7%
2013	101,854	108,473	210,327	7.2%	7.4%
2014	104,809	182,632	287,441	9.8%	6.2%
2015	104,531	229,363	333,894	11.4%	5.3%
2016	101,467	294,374	395,841	13.6%	5.4%
Thereafter			1,290,829	44.2%	
			2,921,842	100%	
Mortgages payable due on demand(1)			21,283		
Financing cost and mark-to-market adjustment arising on acquisitions(2)			6,571		
Total			$2,949,696		

* For the balance of the year

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

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

TOP TWENTY SOURCES OF REVENUE BY TENANT

	Tenant	% of rentals from income properties[1]	Number of locations	REIT owned sq.ft. (in 000's)	Average lease term to maturity (in years)
1.	Bell Canada	10.8	4	1,734	14.0
2.	TransCanada Pipelines Limited	6.7	2	950	9.5
3.	Telus Communications	5.1	2	943	11.5
4.	Bell Mobility	5.0	2	775	14.2
5.	Rona Inc.	3.5	14	2,151	8.3
6.	Versacold Logistics Canada Inc.	3.1	12	1,733	15.6
7.	Canadian Tire Corp.	3.1	4	2,189	14.6
8.	Royal Bank of Canada	2.9	4	477	4.9
9.	Canadian Imperial Bank of Commerce	2.6	7	512	3.4
10.	Nestle USA	2.0	3	2,168	6.2
11.	Lowes Companies Inc.	2.0	11	1,435	7.4
12.	Ontario Realty Corporation and other Ontario agencies[2]	1.9	1	347	4.9
13.	Public Works of Canada	1.7	3	300	5.2
14.	Nestle Canada Inc.	1.7	1	170	7.9
15.	Purolator Courier	1.6	12	1,071	10.7
16.	Shell Oil Products	1.6	18	249	10.7
17.	Finning International	1.5	16	893	10.6
18.	Marsh Supermarkets	1.2	9	548	15.2
19.	Sobey's Inc.	1.0	10	347	10.4
20.	Loblaw Companies Ltd.	0.9	1	716	11.3
	Total	**59.9%**	**136**	**19,708**	

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

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

	Office		Industrial		Retail		Total	
LEASE EXPIRIES	% of sq.ft.	Rent per sq.ft. ($) on expiry	% of sq.ft.	Rent per sq.ft. ($) on expiry	% of sq.ft.	Rent per sq.ft. ($) on expiry	% of sq.ft.	Rent per sq.ft. ($) on expiry
2011*	0.1	23.16	0.2	3.61	0.1	35.16	0.4	16.39
2012	0.9	17.26	1.3	5.63	0.1	30.81	2.3	11.28
2013	1.3	17.60	3.6	5.35	0.4	11.75	5.3	8.84
2014	1.7	16.80	3.3	4.52	0.5	14.94	5.5	9.26
2015	1.0	21.95	1.3	7.49	0.3	29.25	2.6	15.56
2016	2.3	18.52	5.3	3.90	0.3	19.91	7.9	8.76
	7.3	18.33	15.0	4.84	1.7	19.71	24.0	10.00

* For the balance of the year

OUTLOOK

For the nine months ended September 30, 2011, the REIT acquired eight properties in Canada and the United States for cash consideration of approximately $519.3 million. The REIT partially funded the acquisition of the above properties with mortgages totalling $311.2 million bearing interest at an average contractual rate of 5.4% per annum. These mortgages have an average remaining term of 11 years, and only $5.0 million is guaranteed by the REIT.

During the three months ended September 30, 2011, the REIT:

(i) purchased a retail property in South Carolina, U.S. for U.S. $11.3 million;

(ii) purchased an additional piece of land held for development for the Heart Lake project in Caledon, Ontario for $5.3 million; and

(iii) sold four industrial properties for gross proceeds of $17.1 million for a net gain on sale of $3.3 million.

During the nine months ended September 30, 2011, the REIT incurred an additional $259.4 million in developing the Bow, to bring the REIT's total investment in this project to $1.41 billion (December 31, 2010 - $1.15 billion). Occupancy is currently expected to occur in tranches commencing in Q1 2012 with full occupancy expected by Q4 2012. The North Block budget of $1.61 billion has been revised to reflect IFRS changes and the costs associated with the revised occupancy schedule. The remaining costs to complete are $230.5 million. The Bow is fully leased to EnCana Corporation, on a triple net basis, for 25 years.

Subsequent to September 30, 2011, the REIT:

(i) purchased a Class A office tower in Long Island City, New York for U.S. $415.5 million. A 10-year U.S. $250 million mortgage at an annual rate of 4.25% was secured;

(ii) completed a public offering of $100 million of 4.90% Series E Senior Debentures due in February 2018;

(iii) and Finance Trust agreed to sell to a syndicate of underwriters, on a bought deal basis, 8,500,000 Stapled Units for gross proceeds of $187 million and $75 million of 4.50% unsecured convertible debentures due December 31, 2016. Closing of these offerings is expected to occur in the latter part of November 2011.

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

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

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

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board ("AcSB") has mandated the adoption of IFRS effective for interim and annual periods beginning on or after January 1, 2011 for Canadian publicly accountable profit-oriented enterprises. As a result, the Trusts have adopted IFRS effective January 1, 2010 (the "transition date") and have prepared the current condensed combined interim financial statements in accordance with IFRS accounting policies. Furthermore, the first annual financial statements that comply with IFRS will be the December 31, 2011 financial statements. The Trusts' combined financial performance and financial position as disclosed under IFRS uses a similar framework to Canadian GAAP however, there are significant differences relating to measurement, recognition and disclosure. Refer to the March 31, 2011 condensed combined interim financial statements for the effect of the REIT's transition to IFRS for the January 1, 2010 and December 31, 2010 periods.

SECTION II

SELECTED ANNUAL INFORMATION

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

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

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

(2) Finance Trust was created October 1, 2008.

DISCUSSION OF OPERATIONS

(in thousands of Canadian dollars)	Three months ended September 30 2011	2010	% Change	Nine months ended September 30 2011	2010	% Change
Property operating income:						
Rentals from investment properties	**$169,582**	$152,778	11	**$478,737**	$456,727	5
Property operating costs	**(58,031)**	(50,674)	15	**(160,026)**	(148,724)	8
	111,551	102,104	9	**318,711**	308,003	3
Finance costs:						
Finance income	**215**	248	(13)	**812**	2,324	(65)
Finance cost - operations	**(45,335)**	(42,749)	6	**(131,461)**	(131,434)	-
Gain (loss) on extinguishment of debt	**4,995**	15,973	(69)	**19,568**	(21,206)	(192)
Gain (loss) on change in fair value	**21,973**	(58,990)	(137)	**(39,187)**	(93,899)	(58)
	(18,152)	(85,518)	(79)	**(150,268)**	(244,215)	(38)
Amortization and impairment expense	**(46,614)**	(14,498)	222	**(132,817)**	(72,073)	84
Trust expenses	**(2,459)**	(5,952)	(59)	**(9,903)**	(12,210)	(19)
Gain on sale of investment properties	**3,286**	7	46,843	**3,286**	3,616	(9)
Net gain (loss) on foreign exchange	**10,734**	(3,530)	(404)	**7,264**	(2,359)	(408)
Transaction costs on issuance of convertible debentures	**-**	(4,535)	(100)	**-**	(4,535)	(100)
	(53,205)	(114,026)	(53)	**(282,438)**	(331,776)	(15)
Net income (loss) before income taxes	**58,346**	(11,922)		**36,273**	(23,773)	
Income tax recovery (expense)	**(45)**	(185)		**(212)**	459,725	
Net income (loss)	**58,301**	(12,107)		**36,061**	435,952	
Other comprehensive income (loss):						
Unrealized (gain) loss on translation of U.S. denominated foreign operations	**14,081**	(3,055)		**9,364**	(2,494)	
Transfer of realized loss on cash flow hedges to net earnings	**96**	94		**287**	278	
Deferred income taxes	**-**	-		**-**	915	
	14,177	(2,961)		**9,651**	(1,301)	
Total comprehensive income (loss)	**$72,478**	($15,068)		**$45,712**	$434,651	

The change in net income (loss) for both the three and nine months ended September 30, 2011 as compared to the respective 2010 periods is mainly due to the income tax recovery in 2010, the gain (loss) on extinguishment of debt, the gain (loss) on change in fair value and the change in amortization and impairment expense.

Rentals from Investment Properties

Rentals from investment properties ("rentals") include all amounts earned from tenants related to lease agreements, including basic rent, parking income, operating cost recoveries and realty tax recoveries.

Rentals from Investment Properties	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
Same-asset – current rentals	**$152,124**	$148,862	$3,262	**$447,067**	$445,138	$1,929
Same-asset – straight-lining of contractual rent	**(963)**	1,052	(2,015)	**(630)**	4,802	(5,432)
Same-asset rent amortization of tenant inducements	**(256)**	(239)	(17)	**(750)**	(702)	(48)
Acquisitions – current rentals, rent amortization and straight-lining of contractual rent	**18,208**	1,750	16,458	**31,480**	3,533	27,947
Terminated leases due to U.S. bankruptcies	**34**	700	(666)	**107**	2,116	(2,009)
Properties sold	**435**	653	(218)	**1,463**	1,840	(377)
Total rentals	**$169,582**	$152,778	$16,804	**$478,737**	$456,727	$22,010

The increase in same-asset current rentals of $3.3 million for Q3 2011 as compared to Q3 2010 is primarily due to the following items:

- an increase of $2.5 million in net rent;
- higher tenant recoveries of $1.7 million which resulted from higher regular property operating expenses;
- an increase of $1.0 million in sundry income and lease termination payments received in Q3 2011 as compared to Q3 2010;
- a decrease of $0.6 million in additional rent recoverable from tenants in accordance with their leases for items which were capitalized to building improvements; and
- a decrease of $1.4 million due to the weakening of the U.S. dollar, offset by the cash settlement of the forward exchange contracts. The average exchange rate for the three months ended September 30, 2011 was Canadian $0.98 for each U.S. $1.00 (Q3 2010 - $1.06).

The increase in same-asset current rentals of $1.9 million for the nine months ended September 30, 2011 as compared to the same 2010 period is primarily due to the following items:

- an increase of $5.8 million in net rent;
- a decrease of $0.8 million due to $1.5 million of sundry income and lease termination payments in 2011 compared to $2.3 million occurring in 2010;

  higher tenant recoveries of $5.1 million which resulted from higher regular property operating expenses, offset by an increase in vacancies;
- a decrease of $5.4 million in additional rent recoverable from tenants in accordance with their leases for items which were capitalized to building improvements; and
- a decrease of $2.8 million due to the weakening of the U.S. dollar, offset by the cash settlement of the forward exchange contracts. The average exchange rate for the nine months ended September 30, 2011 was Canadian $0.98 for each U.S. $1.00 (September 30, 2010 - $1.04).

Rentals from acquisitions including current rentals, rent amortization and straight-lining of contractual rent increased by $16.5 million in Q3 2011 compared to Q3 2010 and $27.9 million for the nine months ended September 30, 2011 as compared to the respective 2010 period. The increase is primarily due to the 24 property acquisitions between January 1, 2010 and September 30, 2011.

Property Operating Costs

For Q3 2011, realty taxes, maintenance, utilities and property management fees represented 50.5%, 25.8%, 13.1% and 7.0%, respectively, of total property operating costs (Q3 2010 - 51.5%, 25.5%, 12.1% and 5.6%). For the nine months ended September 30, 2011, these costs represented 52.0%, 25.2%, 13.5%, and 5.6%, respectively, of total property operating costs (September 30,

2010 - 53.4%, 23.8%, 12.6% and 6.1%). Maintenance includes costs relating to such items as cleaning, interior and exterior building repairs and maintenance, elevator, HVAC, security and wages and benefits.

Property Operating Costs	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
Same-asset property operating costs	**$51,639**	$49,619	$2,020	**$149,847**	$145,836	$4,011
Acquisitions	**6,248**	254	5,994	**9,572**	561	9,011
Terminated leases due to U.S. bankruptcies	**23**	585	(562)	**112**	1,457	(1,345)
Properties sold	**121**	216	(95)	**495**	870	(375)
Total property operating costs	**$58,031**	$50,674	$7,357	**$160,026**	$148,724	$11,302

The increase in same-asset property operating costs of $2.0 million for Q3 2011 as compared to Q3 2010 is due primarily to the following reasons:

- higher regular property operating expenses of $1.7 million;
- higher management fees of $0.9 million due to an increase of $0.3 million in the incentive fee payable to H&R Property Management Ltd. and lower management fees being capitalized to leasing expenses;
- lower major repair expenditures of $0.1 million; and
- lower U.S. dollar operating costs of $0.3 million due to the weakening of the U.S. dollar when converted into Canadian dollars. The average exchange rate for the three months ended September 30, 2011 was Canadian $0.98 for each U.S. $1.00 (Q3 2010 - $1.06).

The increase in same-asset property operating costs of $4.0 million for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 is due primarily to the following reasons:

- higher regular property operating expenses of $5.3 million;
- lower management fees of $0.7 million primarily due to a higher portion of management fees being capitalized to leasing expenses, offset by an increase of $0.7 million in the incentive fee payable to H&R Property Management Ltd.;
- higher major repair expenditures of $0.1 million; and
- lower U.S. dollar operating costs of $0.7 million due to the weakening of the U.S. dollar when converted into Canadian dollars. The average exchange rate for the nine months ended September 30, 2011 was Canadian $0.98 for each U.S. $1.00 (September 30, 2010 - $1.04).

Same-Asset Property Operating Income*	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
Same-asset current rentals and straight-lining of contractual rent	**$151,161**	$149,914	$1,247	**$446,437**	$449,940	($3,503)
Same-asset - property operating costs	**51,639**	49,619	2,020	**149,847**	145,836	4,011
Total same-asset - property operating income	**99,522**	100,295	(773)	**296,590**	304,104	(7,514)
Total same-asset - property operating income excluding straight-lining of contractual rent	**$100,485**	$99,243	$1,242	**$297,220**	$299,302	($2,082)

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

Total same-asset property operating income, excluding straight-lining of contractual rent, has increased by $1.2 million for the three months and decreased by $2.1 million for the nine months ended September 30, 2011 as compared to the respective 2010 periods. The net change in same-asset property operating income excluding straight-lining of contractual rent resulted from, in Canada, an increase of $1.5 million for the three months and a decrease of $2.2 million for the nine months ended September 30, 2011, and offset by, in the United States, a corresponding decrease of $0.3 million for the three months and an increase of $0.2 million for the nine months ended September 30, 2011, as shown below:

	Three months ended September 30			Nine months ended September 30		
Canada (in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
Same-asset current rentals	**$129,752**	$125,533	$4,219	**$378,941**	$376,390	$2,551
Same-asset property operating costs	**48,467**	45,740	2,727	**139,147**	134,351	4,796
Same-asset property operating income excluding straight-lining of contractual rent	**81,285**	79,793	1,492	**239,794**	242,039	(2,245)
United States (in thousands of Canadian dollars)						
Same-asset current rentals	**22,372**	23,329	(957)	**68,126**	68,748	(622)
Same-asset property operating costs	**3,172**	3,879	(707)	**10,700**	11,485	(785)
Same-asset property operating income excluding straight-lining of contractual rent	**19,200**	19,450	(250)	**57,426**	57,263	163
Total same-asset property operating income*	**$100,485**	$99,243	$1,242	**$297,220**	$299,302	($2,082)

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

Finance Income	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
Finance income	**$215**	$248	($33)	**$812**	$2,324	($1,512)

Finance income decreased when comparing the nine months ended September 30, 2011 to September 30, 2010, primarily due to the collection of a $58 million mortgage receivable in April 2010.

Finance Cost-Operations	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
Contractual interest on mortgages payable	**$43,529**	$42,194	$1,335	**$125,547**	$128,761	($3,214)
Contractual interest on debentures payable	**15,257**	11,800	3,457	**44,794**	33,074	11,720
Interest on construction loans	**1,841**	2,013	(172)	**4,699**	6,093	(1,394)
Effective interest rate accretion	**(64)**	443	(507)	**787**	1,286	(499)
Bank interest and charges	**853**	909	(56)	**2,709**	1,852	857
Class B LP unit distributions	**1,359**	1,141	218	**3,874**	3,099	775
	62,775	58,500	4,275	**182,410**	174,165	8,245
Capitalized interest	**(17,440)**	(15,751)	(1,689)	**(50,949)**	(42,731)	(8,218)
Finance cost - operations	**$45,335**	$42,749	$2,586	**$131,461**	$131,434	$27

The increase in contractual interest on mortgages payable for Q3 2011 compared to Q3 2010 is primarily due to an increase in mortgage interest from the REIT entering into and assuming mortgages in 2010 and 2011, offset by a decrease in foreign exchange rates, regular mortgage amortization payments, and releases from five properties with bankrupt tenants in 2011.

The decrease in contractual interest on mortgages payable for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 is primarily due to the REIT making regular mortgage amortization payments, a decrease in foreign exchange rates, and the REIT's subsidiaries being released from five properties with bankrupt tenants in 2011. This is offset by an increase in mortgage interest from the REIT entering into and assuming mortgages relating to acquisitions in 2010 and 2011.

Debenture interest increased for the three and nine months ended September 30, 2011 by $3.5 million and $11.7 million compared to the respective 2010 periods primarily due the following: (i) an increase of $3.8 million and $13.4 million for the three and nine month periods ended September 30, 2011, respectively, compared to September 30, 2010 in debenture interest due primarily to the REIT issuing $100 million of convertible debentures in July 2010 (at a contractual annual interest rate of 5.90%), $125 million of non-convertible debentures in September 2010 (at a contractual annual interest rate of 5.0%) and $180 million of non-convertible debentures in January 2011 (at a contractual annual rate of 4.78%); and (ii) for the nine month period ended September 30, 2011 compared to September 30, 2010, there was an additional decrease of $2.1 million in debenture interest due to the repayment of the debentures issued to Fairfax Financial Holdings Limited or its affiliates (the "Fairfax Debentures").

Finance Cost - Gain (Loss) on Extinguishment of Debt	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
Gain (loss) on extinguishment of debt	**$4,995**	$15,973	($10,978)	**$19,568**	($21,206)	$40,774

In March 2011, the REIT was legally released from its mortgages on the two Bruno's Supermarkets LLC properties and two Boscov's Department Stores properties upon the lender accepting title to the properties. In July 2011, the REIT was legally released from its mortgage on the final Boscov Department Store property upon the lender accepting title to the property. As a result, the investment properties, the mortgages and the accrued interest on the mortgages were all derecognized resulting in a gain on extinguishment of debt of $5.0 million for the three months and $19.5 million for the nine months ended September 30, 2011.

In February 2010, the REIT repaid the outstanding Fairfax Debentures having an aggregate face value of $200 million for a total repurchase price of $230 million. The repurchase price included accrued interest of approximately $2.0 million. The REIT recognized a one-time non-recurring charge to net income, included in the gain (loss) on extinguishment of debt of approximately $38.8 million in the nine months ended September 30, 2010, representing the difference between the repurchase price, excluding accrued interest expense, and the carrying value of the Fairfax Debentures of $189 million. In May 2010, the REIT was legally released from its mortgage on the Circuit City Distribution Warehouse upon the lender accepting title to the property. In September 2010, the REIT was legally released from its mortgages on four of the Boscov Department Stores upon the lender accepting title to the property. This released the REIT from the debt owing with respect to the mortgages on these properties. As a result, the investment properties, the mortgages and the accrued interest on the mortgages were all derecognized resulting in a gain on extinguishment of debt of $16.0 million for the three months and $17.6 million for the nine months ended September 30, 2010.

Finance Cost - Gain (Loss) on Change in Fair Value	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
Gain (loss) on fair value of convertible debentures	**$22,440**	($42,923)	$65,363	**($26,062)**	($62,348)	$36,286
Gain (loss) on fair value of Class B LP units	**3,208**	(14,953)	18,161	**(8,863)**	(23,382)	14,519
Unrealized loss on derivative contracts	**(3,675)**	(1,114)	(2,561)	**(4,262)**	(8,169)	3,907
Finance cost - gain (loss) on change in fair value	**$21,973**	($58,990)	$80,963	**($39,187)**	($93,899)	$54,712

The REIT elected to fair value the convertible debentures under IFRS which eliminates the requirement to separately fair value any embedded derivatives. The gain (loss) on fair value of debentures is due to the change in the fair value liability of the convertible debentures based on the ask market price. Under IFRS, the Class B LP units are considered puttable instruments which are fair valued and classified as a financial liability. The gain (loss) on fair value of Class B LP units is due to the change in the Class B LP unit fair value during the respective quarter. At the end of each quarter, the fair value of each Class B LP unit is measured based on the ask price of Stapled Units which was $21.06 on September 30, 2011 ($19.75 - September 30, 2010).

The unrealized loss on derivative contracts resulted from:

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

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

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

Amortization and Impairment Expense	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
Depreciation of investment properties	**$27,346**	$24,709	$2,637	**$77,784**	$73,480	$4,304
Amortization of intangible assets on acquisitions	**13,545**	10,144	3,401	**33,604**	30,211	3,393
Amortization of above- and below- market rents	**3,715**	5,261	(1,546)	**14,053**	15,796	(1,743)
Amortization of leasing expenses	**1,158**	927	231	**3,429**	2,694	735
Impairment (reversal) loss on investment properties	**850**	(26,543)	27,393	**3,947**	(50,108)	54,055
Amortization and impairment expenses	**$46,614**	$14,498	$32,116	**$132,817**	$72,073	$60,744

All Canadian and U.S. properties were tested for impairment at January 1, 2010 in accordance with IAS 36 *Impairment of Assets* and a write-down of $126.3 million was taken on January 1, 2010. However, there were $26.5 million in Q3 2010 and $50.1 million in the nine months ended September 30, 2010 of impairment charges reversed due to changing economic conditions. In Q3 2011, there was one property further written down as its carrying amount continued to exceed its recoverable amount. For the nine months ended September 30, 2011, there were five properties written down as their carrying amount exceeded their recoverable amounts. There were also two Canadian impaired properties where their losses were reversed based on changing economic conditions.

Trust Expenses	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
Unit-based compensation	**$532**	$3,975	($3,443)	**$4,254**	$6,020	($1,766)
Other expenses	**1,927**	1,977	(50)	**5,649**	6,190	(541)
Trust expenses	**$2,459**	$5,952	($3,493)	**$9,903**	$12,210	($2,307)

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

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

Unit-based Compensation	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
As reported under IFRS	**$532**	$3,975	($3,443)	**$4,254**	$6,020	($1,766)
Canadian GAAP before IFRS	**594**	311	283	**1,497**	915	582
Increase (decrease) due to adoption of IFRS	**($62)**	$3,664	($3,726)	**$2,757**	$5,105	($2,348)

Net Gain(Loss) on Foreign Exchange	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
Net gain (loss) on foreign exchange	**$10,734**	($3,530)	$14,264	**$7,264**	($2,359)	$9,623

The net gain (loss) on foreign exchange, which was recorded in the financial statements of Finance Trust, is due to a difference in exchange rates as the U.S. Holdco Notes receivable by Finance Trust are denominated in U.S. dollars while the financial statements of Finance Trust are expressed in Canadian dollars. The notes are eliminated upon combination however, the foreign exchange difference is not eliminated on combination as U.S. Holdco has a different functional currency than that of the REIT.

Gain on Sale of Investment Properties	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
Gain on sale of investment properties	**$3,286**	$7	$3,279	**$3,286**	$3,616	($330)

In July and August 2011, the REIT sold the following four industrial properties: 880 Milner, 5230 Orbitor, 51 Kelfield and 738 Polymoore. For the nine months ended September 30, 2010, the gain on sale of investment properties was from the sale of the 110 Sheppard office building and the 2390 Argentia Road industrial building.

Income Tax Recovery (Expense)	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2011**	2010	Change	**2011**	2010	Change
Current income tax expense	**($45)**	($185)	$140	**($212)**	($413)	$201
Deferred income tax recovery	**-**	-	-	**-**	460,138	($460,138)
Income tax recovery (expense)	**($45)**	($185)	$140	**($212)**	$459,725	($459,937)

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.

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

SEGMENTED INFORMATION

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

The REIT is not required to report in its financial statements on the performance of each class of assets separately due to management's assessment that all assets effectively adhere to the same investment policy of being leased on a long-term basis to creditworthy tenants and the fact that the REIT manages all assets on a similar basis. Segmented disclosure is provided in the financial statements by net property operating income on a geographic basis as the property operations in the United States are considered to be a geographic segment. This segmented information on net property operating income is as follows:

Property operating income for the three months ended September 30, 2011

(in thousands of Canadian dollars)	**Canada**	**United States**	**Total**
Rentals from investment properties	**$140,441**	**$29,141**	**$169,582**
Property operating costs	**(53,672)**	**(4,359)**	**(58,031)**
Property operating income	**$86,769**	**$24,782**	**$111,551**

Property operating income for the three months ended September 30, 2010

(in thousands of Canadian dollars)	Canada	United States	Total
Rentals from investment properties	$126,629	$26,149	$152,778
Property operating costs	(45,956)	(4,718)	(50,674)
Property operating income	$80,673	$21,431	$102,104

Property operating income for the nine months ended September 30, 2011

(in thousands of Canadian dollars)	**Canada**	**United States**	**Total**
Rentals from investment properties	**$394,531**	**$84,206**	**$478,737**
Property operating costs	**(146,298)**	**(13,728)**	**(160,026)**
Property operating income	**$248,233**	**$70,478**	**$318,711**

Property operating income for the nine months ended September 30, 2010

(in thousands of Canadian dollars)	Canada	United States	Total
Rentals from investment properties	$381,063	$75,664	$456,727
Property operating costs	(135,221)	(13,503)	(148,724)
Property operating income	$245,842	$62,161	$308,003

The change in U.S. property operating income of $3.4 million and $8.3 million for the three and nine months ended September 30, 2011, as compared to the respective 2010 period, is primarily due to an increase in rentals from acquisitions as the REIT has acquired 21 properties in the United States between January 1, 2010 and September 30, 2011. Had the property operating income for properties located in the United States been shown in U.S. dollars, and excluded the sundry income earned from a hedging instrument on foreign exchange, the property income from those properties where the tenants have terminated their leases and the acquisitions during 2011, the adjusted property operating income would have been $18.9 million for the three months ended September 30, 2011 as compared to income of $18.7 million for the three months ended September 30, 2010 and the adjusted property operating income would have been $56.7 million for the nine months ended September 30, 2011 as compared to income of $56.3 million for the nine months ended September 30, 2010.

ASSETS

Investment Properties

The REIT acquired eight properties during the nine months ended September 30, 2011. The cost of these acquisitions less mortgages assumed were funded from the REIT's general operating facility, funds from debenture issuances and proceeds from units issued in May 2011. There were 16 properties acquired during the year ended December 31, 2010.

2011 Acquisitions:

Property	Year Built	Property Type	Date Acquired	Square Footage	Cash Purchase Price ($ Millions)	Anchor Tenants	Average Remaining Lease Term (years)
665 American Legion Dr., Teaneck, NJ	1961	Retail	Feb 15, 2011	42,047	$10.2	Stop & Shop	7
3773-3841 S. Hamilton Rd., Columbus, OH	2009	Retail	Feb 18, 2011	118,066	21.3	Giant Eagle	17
2480 Rock House Rd., Lithia Springs, GA	2009	Office	May 6, 2011	79,570	58.3	Pricewaterhouse Coopers LLP	20
1670 Rue Eiffel, Boucherville, QC	1999	Industrial	May 26, 2011	127,776	11.1	Carquest Canada	20
550 McAllister Dr., St. John, NB	2003	Industrial	May 26, 2011	104,094	8.7	Carquest Canada	20
595 Bay St., 20 & 40 Dundas St. & 306 Yonge St., Toronto, ON (Atrium on Bay)	1979-2002	Office & Retail	June 1, 2011	1,051,307	344.8	CIBC, Ontario Realty Corporation	5
1 Academy Dr., Jeffersonville, GA	2008	Industrial	June 15, 2011	1,038,183	53.6	Academy, Ltd.	20
3642 Savannah Highway (U.S. 17), Charleston, SC	2007	Retail	Sep 12, 2011	58,851	11.3	Publix Supermarkets Inc.	16
Total				2,619,894	$519.3		

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

The REIT partially funded the acquisition of the above properties with mortgages totalling $311.2 million bearing interest at an average contractual rate of 5.4% per annum. These mortgages have an average remaining term of 11 years and only $5.0 million is guaranteed by the REIT.

The REIT sold four properties during the nine months ended September 30, 2011. There were two properties sold during the year ended December 31, 2010.

2011 Dispositions:

Property	Property Type	Date Sold	Square Footage	Gross Proceeds ($ Millions)	Ownership Interest Disposed
880 Milner Ave., Toronto, ON	Industrial	July 4, 2011	60,028	$2.9	70%
5230 Orbitor Dr., Mississauga, ON	Industrial	July 6, 2011	22,000	2.3	100%
738 Polymoore Dr., Corunna, ON	Industrial	Aug 4, 2011	76,136	4.6	100%
51 Kelfield St., Toronto, ON	Industrial	Aug 16, 2011	57,976	7.3	100%
Total			216,140	$17.1	

The portfolio continues to remain in good condition. The average age of the total portfolio from the date built or renovated is 17.5 years at September 30, 2011 (December 31, 2010 - 16.9 years) and the average age of properties by type of asset is as follows:

Average Age by Type of Asset	September 30, 2011 (years)	December 31, 2010 (years)
Office	21.3	19.5
Industrial	17.6	17.6
Retail	13.2	12.1
Total	17.5	16.9

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

Type of Asset (millions)	Fair Value September 30, 2011	Net Book Value September 30, 2011	Net Book Value December 31, 2010
Office	$3,039	$2,468	$2,081
Industrial	1,801	1,360	1,307
Retail	1,441	1,208	1,195
Total	$6,281	$5,036	$4,583

Region (millions)	Fair Value September 30, 2011	Net Book Value September 30, 2011	Net book Value December 31, 2010
Ontario	$3,005	$2,396	$2,085
Alberta	1,037	740	761
Quebec	371	267	261
Other	505	422	421
Canada	4,918	3,825	3,528
United States	1,363	1,211	1,055
Total	$6,281	$5,036	$4,583

Please refer to note 4 of the financial statements for the assumptions and methods in determining the fair value of the portfolio.

Significant costs associated with income properties are either capitalized and depreciated or expensed in the year incurred. The REIT expects to incur the following costs:

Year	Total Amount Expected to be Incurred	Amount Expected to be Capitalized	Amount Expected to be Expensed to Property Operating Costs	Total Expected Recovery	Amount Expected to be Recovered in the Year Incurred	Amount Expected to be Recovered thereafter
2011*	$11 million	$5 million	$6 million	$8 million	$6 million	$2 million
2012	$21 million	$13 million	$8 million	$18 million	$10 million	$8 million
2013	$13 million	$9 million	$4 million	$12 million	$7 million	$5 million

* For the balance of the year

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

Properties Under Development

The REIT is currently developing the Bow in Calgary, AB. The Bow is a 2-million square foot head office complex pre-leased, on a triple net basis, to EnCana Corporation for a term of 25 years. The total annualized year one projected income from the Bow is expected to be approximately $94 million. Rent escalations will be 0.75% per annum on the office space and 1.5% per annum on the parking income for the full 25-year term. Occupancy is currently expected to occur in tranches commencing in the first quarter of 2012 with full occupancy expected by the fourth quarter of 2012. The North Block budget has been revised to $1.61 billion to reflect IFRS changes and the revised expected tranche delivery dates. Under GAAP the original budget included, as a reduction to costs, net rent paid by EnCana Corporation during the initial tranches until the building was fully occupied. Under IFRS, this net rent will be recorded in the income statement and not as a reduction of budgeted costs. Excluding capitalized interest, these IFRS changes resulted in an increase to the budget of $23.2 million. The REIT is responsible to EnCana Corporation for delay costs of $1.67 per square foot per month. The estimated delay costs of approximately $20.8 million have been included in the budget below. The form of this payment is currently under discussion with EnCana Corporation. In addition, the budget has increased due to labour and trade costs associated with the revised occupancy schedule. The presentation of the updated budget also shows a reallocation of the costs incurred to date for the South Block. The REIT has made an application to the City of Calgary to amend the approved Development Permit on the South Block to allow office and ancillary retail uses. Discussions are underway with EnCana Corporation and the City of Calgary with respect to cultural uses in the South Block and with EnCana Corporation's cost sharing obligations and right to approve future development.

The following table shows the previously reported budget, the updated budget and the costs to complete:

(in thousands of Canadian dollars)	Original Budget	North Block Budget	South Block Budget	Costs Incurred to Date	Costs to Complete
Land	$60,804	$42,804	$18,000	$60,804	$ -
Financing costs	41,721	44,910	-	28,909	16,001
Capitalized interest on the REIT's costs as incurred	215,722	212,722	-	169,889	42,833
Soft costs	192,644	189,067	-	153,121	35,946
Hard costs	1,131,211	1,158,698	10,087	1,051,141	117,644
Recoveries and other income	(116,937)	(69,328)	-	(54,381)	(14,947)
Contingency	21,557	33,010	-	-	33,010
Cost incurred to date/remaining costs/budget	1,546,722	1,611,883	28,087	1,409,483	230,487
Less capitalized interest on the REIT's costs incurred	(215,722)	(212,722)	-	(169,889)	(42,833)
Total costs incurred to date/remaining costs/budget less capitalized interest	$1,331,000	$1,399,161	$28,087	$1,239,594	$187,654

The estimated fair value of the Bow on completion is approximately $1.7 billion, determined as at September 30, 2011 by using a 5.50% capitalization rate on the first full year's operating income.

Accrued Rent Receivable

Certain leases call for rental payments that increase over the lease term. To comply with IFRS, the rental revenue from these leases are recorded on a straight-line basis, resulting in accruals for rents that are not billable or due until future periods. Accrued rent receivable has increased by 0.9% or $1.4 million from $156.9 million at December 31, 2010 to $158.3 million at September 30, 2011.

Other Assets (in thousands of Canadian dollars)	**September 30, 2011**	December 31, 2010
Restricted cash	**$10,042**	$19,106
Accounts receivable	**7,810**	7,420
Prepaid expenses and sundry assets	**22,615**	6,932
Derivative instruments	**-**	1,225
Other Assets	**$40,467**	$34,683

Restricted cash decreased from $19.1 million at December 31, 2010 to $10.0 million at September 30, 2011 due primarily to a decrease in funds being held in escrow relating to rent paid in advance.

Prepaid expenses and sundry assets have increased from $6.9 million at December 31, 2010 to $22.6 million at September 30, 2011 primarily due to an increase in prepaid realty taxes.

LIABILITIES

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

	September 30, 2011	December 31, 2010
Total debt to GBV per the REIT's Declaration of Trust[1]	**48.9%**	47.3%
Total debt to GBV per the REIT's combined financial statements	**55.9%**	55.4%
Non-recourse debt as a percentage of total debt	**39.5%**	39.2%
Floating rate debt as a percentage of total debt	**4.9%**	2.4%
Canadian properties total debt to GBV	**54.5%**	53.3%
U.S. properties total debt to GBV	**61.9%**	64.3%

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

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

Mortgages Payable

Opening balance - December 31, 2010	$2,706,707
Principal payments	(77,583)
Mortgage repaid upon maturity	(68,063)
New mortgages	395,734
Mortgages released upon lender taking title to properties	(60,793)
Mortgages released from sale of investment properties	(4,071)
Foreign exchange difference	57,765
Closing balance – September 30, 2011	**$2,949,696**

The mortgages bear interest at a weighted average rate of 6.0% (December 31, 2010 – 6.2%) and mature between 2011 and 2035. The weighted average term to maturity of the REIT's mortgages is 7.8 years (December 31, 2010 - 8.0 years). Going forward, based on current market conditions and current lenders, the REIT anticipates being able to refinance all its debt as it matures. Notwithstanding this, the REIT may choose to repay some of its mortgages upon maturity. Of the total mortgages (excluding mortgages due on demand), 1.0% will mature in 2011 and 12.8% will mature in 2012. The remaining mortgages maturing before the end of 2011 bear interest at a weighted average rate on maturity of 5.4% while mortgages maturing during 2012 bear interest at a weighted average rate on maturity of 6.7%. For a further discussion of interest rate risk, please see "Risks and Uncertainties".

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

Segmented disclosure by geographic location is provided as follows:

(in thousands of Canadian dollars)	September 30, 2011	December 31, 2010
Mortgages payable - Canada	**$2,036,942**	$1,890,881
Mortgages payable - United States	**912,754**	815,826
Total	**$2,949,696**	$2,706,707

Debentures Payable

						September 30, 2011	December 31, 2010
	Maturity	Contractual Interest Rate	Effective Interest Rate	Conversion Price	Face Value (in millions)	**Carrying Value (in millions)**	Carrying Value (in millions)
Convertible Debentures							
2013 Convertible Debentures	Jun 30, 2013	6.65%	6.65%	$23.11	$115.0	**$119.0**	$121.3
2014 Convertible Debentures	Dec 31, 2014	6.75%	6.75%	14.00	133.5	**201.6**	203.0
2017 Convertible Debentures	Jun 30, 2017	6.00%	6.00%	19.00	170.2	**195.7**	188.1
2020 Convertible Debentures	Jun 30, 2020	5.90%	5.90%	23.50	100.0	**102.0**	102.6
					518.7	**618.3**	615.0
Senior Debentures							
Series A Senior Debentures	Feb 3, 2015	5.20%	5.40%	n/a	115.0	**114.3**	114.1
Series B Senior Debentures	Feb 3, 2017	5.90%	6.06%	n/a	115.0	**114.1**	114.1
Series C Senior Debentures	Dec 1, 2018	5.00%	5.30%	n/a	125.0	**122.8**	122.6
Series D Senior Debentures	Jun 27, 2016	4.78%	4.96%	n/a	180.0	**178.7**	-
					535.0	**529.9**	350.8
Total					$1,053.7	**$1,148.2**	$965.8

Debentures payable increased by $182.4 million to $1,148.2 million at September 30, 2011 from $965.8 million at December 31, 2010. Convertible debentures increased by $3.3 million mainly due to the increase in fair value of the 2017 debentures. The senior debentures increased by $179.1 million mainly due to the issuance of the series D senior debentures bearing interest at the annual contractual rate of 4.78% and an effective interest rate of 4.96%. The series D senior debentures mature on June 26, 2016 and interest is paid semi-annually on January 27 and July 27 in each year commencing July 27, 2011. On issuance, the REIT recorded a liability of $178.5 million, net of issue costs of $1.5 million.

Derivative Instruments

Derivative instruments represents the fair value of the interest rate swap on the Bow construction facility. At September 30, 2011, the fair value of the interest rate swap on the Bow construction facility was a liability of $5.5 million (December 31, 2010 - liability of $2.9 million).

The REIT also entered into an interest rate swap on one mortgage. The fair value of this interest rate swap as at September 30, 2011 was a liability of $0.8 million (December 31, 2010 - liability of $0.4 million).

The REIT also entered into a foreign exchange forward contract with a Canadian chartered bank effectively locking the REIT's rate to exchange U.S. $2.0 million per month at 1.0402 for a two-year period expiring in April 2012. The fair value of this forward exchange contract as at September 30, 2011 was a liability of $0.1 million (December 31, 2010 - asset of $1.2 million).

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities decreased by $6.6 million from $170.5 million at December 31, 2010 to $163.9 million at September 30, 2011. Accruals relating to properties under development totalled $55.9 million at September 30, 2011 compared to $66.9 million at December 31, 2010. Included in accrued liabilities is an amount relating to interest accrued to date on the non-recourse mortgages under default which decreased by $6.8 million from $8.1 million at December 31, 2010 to $1.3 million at September 30, 2011 due to the lenders of five properties with bankrupt tenants accepting title during 2011. There was also an increase of $8.0 million due to increased interest accrued on all of the debentures. Accounts payable and accruals increased as a result of routine transactions with tenants occurring in the normal course of business operations.

USE OF PROCEEDS FROM FINANCING ISSUED DURING Q3 2011

Financing	Disclosed Use of Proceeds	Actual Use of Proceeds
Public offering of $180 million of unsecured senior debentures on January 27, 2011.	To fund future property acquisitions, including to the extent necessary, Atrium on Bay and for general trust purposes.	The entire net proceeds were used to fund the Bow and for general trust purposes.
Public offering of Stapled Units of $200 million on May 31, 2011.	To fund development projects, property acquisitions and for general trust purposes.	The entire net proceeds were used to fund a portion of Atrium on Bay, to repay bank indebtedness and for general trust purposes.

EQUITY

Unitholders' Equity

Unitholders' equity increased by $181.4 million between December 31, 2010 and September 30, 2011. The increase is primarily due to the REIT and Finance Trust completing a public offering in May 2011, issuing 9,030,000 Stapled Units for gross proceeds of approximately $200 million, as well as net income earned by the REIT, and partially offset by distributions paid to unitholders during the nine months ended September 30, 2011.

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

Although funds from operations ("FFO") is widely used by the real estate industry as a measure of operating performance, the Trusts' method of calculating FFO may differ when comparing to other issuers. The Trusts present its FFO calculations in accordance with the Real Estate Property Association of Canada (REALPAC) except for the adjustment to Class B LP units' finance costs, transaction costs on issuance of convertible debentures and the fair value change to the unit-based compensation resulting from the adoption of IFRS. Interest on Class B LP units were previously treated as distributions under Canadian GAAP, however under IFRS, they are treated as finance costs and have therefore been added back to FFO. Transaction costs for non-convertible debentures are capitalized against the total amount of issued debentures, however, for convertible debentures transaction costs are expensed. To ensure FFO reflects consistent treatment of transaction costs, this has been added back. FFO is a non-IFRS measure which should not be used as an alternative to comprehensive income, or cash flow from operations.

	Three months ended September 30		Nine months ended September 30	
(in thousands of Canadian dollars except per unit amounts)	**2011**	2010	**2011**	2010
Net income (loss)	**$58,301**	($12,107)	**$36,061**	$435,952
Add (deduct):				
(Gain) loss on fair value of debentures and Class B LP units	**(25,648)**	57,876	**34,925**	85,730
Unrealized gain on derivative contracts	**3,675**	1,114	**4,262**	8,169
Class B LP units' finance costs	**1,359**	1,141	**3,874**	3,099
Amortization and impairment expense	**46,614**	14,498	**132,817**	72,073
Fair value adjustment to unit-based compensation	**(62)**	3,664	**2,757**	5,105
Gain on sale of income properties	**(3,286)**	(7)	**(3,286)**	(3,616)
Transaction costs on issuance of convertible debentures	**-**	4,535	**-**	4,535
Net gain (loss) on foreign exchange	**(10,734)**	3,530	**(7,264)**	2,359
Deferred income tax expense	**-**	-	**-**	(460,138)
FFO	**$70,219**	$74,244	**$204,146**	$153,268
Weighted average number of Stapled Units (in thousands of Stapled Units adjusted for conversion of non-controlling interest)	**162,696**	149,729	**156,882**	149,504
Diluted weighted average number of Stapled Units (in thousands of Stapled Units) for the calculation of FFO(1)(2)(3)(4)	**190,965**	178,343	**185,556**	169,993
FFO per Stapled Unit (basic – adjusted for conversion of non-controlling interest)	**0.43**	0.50	**1.30**	1.03
FFO per Stapled Unit (diluted)	**0.41**	0.46	**1.23**	0.99

(1) For the three months ended September 30, 2011 and 2010, 486,797 Stapled Units and 721,608 Stapled Units, respectively, are included in the determination of diluted FFO with respect to the Unit Option Plan. For the nine months ended September 30, 2011 and 2010, 584,978 Stapled Units and 569,720 Stapled Units, respectively, are included in the determination of diluted FFO with respect to the Unit Option Plan.

(2) The 2013, 2014, 2017 and 2020 Convertible Debentures are dilutive for the three and nine months ended September 30, 2011. Therefore, debenture interest of $8.3 million and $24.8 million respectively, are added to FFO and 27,782,915 Stapled Units and 28,088,578 Stapled Units, respectively, are included in the diluted weighted average number of Stapled Units outstanding for these periods.

(3) The 2013, 2014, 2017 and 2020 Convertible Debentures are dilutive for the three months ended September 30, 2010. Therefore, debenture interest of $8.2 million is added to FFO and 27,891,955 Stapled Units are included in the weighted average number of Stapled Units outstanding for this period.

(4) The 2014 and 2017 Convertible Debentures are dilutive for the nine months ended September 30, 2010. Therefore, debenture interest of $15.4 million is added to FFO and 19,919,177 Stapled Units are included in the weighted average number of Stapled Units outstanding for this period.

Key Performance Measure - FFO

The following items are included in FFO: (i) lease terminations and sundry income of $1.0 million for the three months ended September 30, 2011 (September 30, 2010 - nil) and $1.5 million for the nine months ended September 30, 2011 (September 30, 2010 - $2.3 million), (ii) additional recoveries for capital expenditures in excess of items expensed in property operating costs of $1.6 million for the three months ended September 30, 2011 (September 30, 2010 - $2.0 million) and $2.6 million for the nine months ended September 30, 2011 (September 30, 2010 - $7.6 million), and (iii) a gain (loss) on extinguishment of debt of $5.0 million for the three months ended September 30, 2011 (September 30, 2010 - $16.0 million) and $19.6 million for the nine months ended September 30, 2011 (September 30, 2010 – ($21.2 million)). Excluding these items, FFO would have been $62.6 million ($0.38 per Stapled Unit) compared to $56.2 million ($0.38 per Stapled Unit) for the three months ended September 30, 2011 and 2010, respectively, and $180.4 million ($1.15 per Stapled Unit) compared to $164.6 million ($1.10 per Stapled Unit) for the nine months ended September 30, 2011 and 2010, respectively.

The following table below provides a reconciliation of FFO previously reported under Canadian GAAP to the FFO currently reported under IFRS for the three and nine months ended September 30, 2010:

	Three months ended September 30, 2010	Nine months ended September 30, 2010
FFO previously reported	$67,184	$134,881
IFRS adjustments resulting from the restated September 30, 2010 income statement:		
Change in rent amortization	733	2,362
Change in straight-lining of contractual rent	(869)	(1,387)
Change in effective interest rate accretion	2,558	6,921
Change in net loss on foreign exchange	(6)	(37)
Net gain on foreign exchange	3,530	2,359
Unrealized gain on derivative contracts	1,114	8,169
Revised FFO	$74,244	$153,268

ADJUSTED FUNDS FROM OPERATIONS

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

	Three months ended September 30		Nine months ended September 30	
(in thousands of Canadian dollars except per unit amounts)	**2011**	2010	**2011**	2010
Funds from operations	**$70,219**	$74,244	**$204,146**	$153,268
Add (deduct):				
Straight-lining of contractual rent	**350**	(1,106)	**(256)**	(4,770)
Rent amortization of tenant inducements	**256**	239	**750**	702
Effective interest rate accretion	**(64)**	443	**787**	1,286
Mortgage interest accruals on non-recourse mortgage defaults	**291**	969	**1,888**	5,592
(Gain) loss on extinguishment of debt	**(4,995)**	(15,973)	**(19,568)**	21,206
Unit-based compensation	**594**	311	**1,497**	915
Capital expenditures	**(2,686)**	(2,452)	**(4,500)**	(11,943)
Tenant expenditures	**(1,062)**	(1,523)	**(7,458)**	(4,270)
AFFO	**$62,903**	$55,152	**$177,286**	$161,986
Weighted average number of Stapled Units (in thousands of Stapled Units adjusted for conversion of non-controlling interest)	**162,696**	149,729	**156,882**	149,504
Diluted weighted average number of Stapled Units (in thousands of Stapled Units) for the calculation of AFFO[(1)(2)(3)]	**185,989**	173,367	**180,579**	171,006
AFFO per Stapled Unit (basic - adjusted for conversion of non-controlling interest)	**0.39**	0.37	**1.13**	1.08
AFFO per Stapled Unit (diluted)	**0.37**	0.35	**1.09**	1.04
Distributions per Stapled Unit	**0.25**	0.21	**0.71**	0.57
Payout ratio	**64.1%**	56.8%	**62.8%**	52.8%

(1) For the three months ended September 30, 2011 and 2010, 486,797 Stapled Units and 721,608 Stapled Units, respectively, are included in the determination of diluted AFFO with respect to the Unit Option Plan. For the nine months ended September 30, 2011 and 2010, 584,978 Stapled Units and 569,720 Stapled Units, respectively, are included in the determination of diluted AFFO with respect to the Unit Option Plan.

(2) The 2014, 2017 and 2020 Convertible Debentures are dilutive for the three and nine months ended September 30, 2011. Therefore, debenture interest of $6.4 million and $19.0 million, respectively, are added to AFFO and 22,806,714 Stapled Units and 23,112,377 Stapled Units, respectively, are included in the dilutive weighted average number of Stapled Units outstanding for these periods.

(3) The 2014, 2017 and 2020 Convertible Debentures are dilutive for the three and nine months ended September 30, 2010. Therefore, debenture interest of $6.3 million and $16.5 million, respectively, are added to AFFO and 22,915,754 Stapled Units and 20,932,349 Stapled Units, respectively, are included in the dilutive weighted average number of Stapled Units outstanding for both of these periods.

Key Performance Measure - AFFO

The following items are included in AFFO: (i) lease terminations and sundry income of $1.0 million for the three months ended September 30, 2011 (September 30, 2010 - nil) and $1.5 million for the nine months ended September 30, 2011 (September 30, 2010 - $2.3 million), and (ii) additional recoveries for capital expenditures in excess of items expensed in property operating costs of $1.6 million for the three months ended September 30, 2011 (September 30, 2010 - $2.0 million) and $2.6 million for the nine months ended September 30, 2011 (September 30, 2010 - $7.6 million). Excluding these items, AFFO would have been $60.3 million ($0.37 per Stapled Unit) compared to $53.2 million ($0.35 per Stapled Unit) for the three months ended September 30, 2011 and 2010, respectively, and $173.2 million ($1.10 per Stapled Unit) compared to $152.1 million ($1.02 per Stapled Unit) for the nine months ended September 30, 2011 and 2010, respectively.

The following table below provides a reconciliation of AFFO previously reported on under Canadian GAAP to the AFFO currently reported under IFRS for the three and nine months ended September 30, 2010:

	Three months ended September 30, 2010	Nine months ended September 30, 2010
AFFO as previously reported	$55,152	$123,152
Loss on repayment of Fairfax Debentures	-	38,834
Revised AFFO	$55,152	$161,986

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

	Three months ended September 30		Nine months ended September 30	
(in thousands of Canadian dollars)	**2011**	2010	**2011**	2010
Adjusted funds from operations	**$62,903**	$55,152	**$177,286**	$161,986
Straight-lining of contractual rent	**(350)**	1,106	**256**	4,770
Mortgage interest accruals on non-recourse mortgage defaults	**(291)**	(969)	**(1,888)**	(5,592)
Class B LP units' finance costs	**(1,359)**	(1,141)	**(3,874)**	(3,099)
Additions to capital expenditures and tenant expenditures	**3,748**	3,975	**11,958**	16,213
Finance cost - operations	**45,335**	42,749	**131,461**	131,434
Effective interest rate accretion	**64**	(443)	**(787)**	(1,286)
Transaction costs on issuance of convertible debentures	**-**	(4,535)	**-**	(4,535)
Change in other non-cash operating items	**(5,904)**	(13,183)	**(13,869)**	(25,204)
Realized gain (loss) on foreign exchange	**3**	-	**1**	(2)
Cash provided by operations	**$104,149**	$82,711	**$300,544**	$274,685

LIQUIDITY AND CAPITAL RESOURCES

Cash Distributions

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

(in thousands of Canadian dollars)	Three months ended September 30, 2011	Nine months ended September 30, 2011	Year ended December 31, 2010	Year ended December 31, 2009[(1)]
Cash provided by operating activities	**$104,149**	**$300,544**	$413,772	$238,941
Net income	**58,031**	**36,061**	496,600	86,525
Actual cash distributions paid or payable relating to the period	**29,777**	**83,887**	99,426	97,726
Excess of cash provided by operating activities over cash distributions paid	**74,372**	**216,657**	314,346	141,215
Excess (shortfall) of net income over cash distributions paid	**28,254**	**(47,826)**	397,174	(11,201)

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

For all of the periods noted above, cash provided by operating activities exceeded cash distributions. Management expects this trend to continue. Net income exceeded cash distributions paid for the three months ended September 30, 2011 and year ended December 31, 2010, whereas cash distributions paid exceeded net income for the nine months ended September 30, 2010 and year ended December 31, 2009 due to non-cash items which are deducted or added in determining net income. Net income exceeded cash distributions paid for the years ended December 31, 2010 and December 31, 2009. Non-cash items such as impairment losses, gain (loss) on extinguishment of debt, deferred income tax recoveries, unrealized gains or losses, depreciation and amortization, while deducted from or added to net income have no impact on cash available to pay current distributions.

Capital Resources

Subject to market conditions, management expects to be able to meet all of the REIT's ongoing obligations and to finance short-term development commitments through the issue of new securities, as well as by using conventional real estate debt, selling or refinancing other assets, short-term financing from the bank and the REIT's cash flow from operations. As at September 30, 2011, the REIT is not in default or arrears on any of its obligations including interest or principal payments on debt and any debt covenant with the exception of the non payment of principal and interest for the two Great Atlantic and Pacific Tea Company non-recourse mortgages following the Chapter 11 filings of those tenants. The REIT's subsidiaries have handed over control of these properties to the respective mortgage lenders and is waiting for those lenders to legally release the REIT's subsidiaries from their debt obligations.

The REIT's general operating facility has been provided by the same chartered bank since the REIT's inception. This general operating facility expires on December 31, 2012 and is secured by certain income properties. At September 30, 2011, approximately $191.4 million was available under this facility.

Other than the Bow development which is described in greater detail under "Properties under Development", the following is a summary of material contractual obligations of the REIT (excluding mortgages related to assets held for sale and mortgages due on demand) including payments due as at September 30, 2011 for the next 5 years and thereafter:

	Payments Due by Period				
Contractual Obligations (in thousands of Canadian dollars)	2011	2012-2013	2014-2015	2016 and thereafter	Total
Mortgages payable *	$29,011	$584,826	$621,335	$1,686,670	$2,921,842
2013 Convertible debentures	-	115,000	-	-	115,000
2014 Convertible debentures	-	-	133,524	-	133,524
2017 Convertible debentures	-	-	-	170,156	170,156
2020 Convertible debentures	-	-	-	99,990	99,990
Series A Senior Debentures	-	-	115,000	-	115,000
Series B Senior Debentures	-	-	-	115,000	115,000
Series C Senior Debentures	-	-	-	125,000	125,000
Series D Senior Debentures	-	-	-	180,000	180,000
Bank indebtedness	-	207,363	-	-	207,363
Property acquisitions(1)	180,700	-	-	-	180,700
Total Contractual Obligations	$209,711	$907,189	$869,859	$2,376,816	$4,363,575

* For the balance of the 2011 year

(1) The total purchase price is approximately $453.0 million less the mortgage assumptions of $272.3 million.

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

DBRS has confirmed that the REIT has a credit rating of BBB with a Stable trend as at September 30, 2011. A credit rating of BBB by DBRS is generally an indication of adequate credit quality, where protection of interest and principal is considered acceptable. A credit rating of BBB or higher is an investment grade rating. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be withdrawn or revised by DBRS at any time. The credit rating is reviewed periodically by DBRS.

The REIT has no material capital or operating lease obligations.

Funding of Future Commitments

The REIT believes that as at September 30, 2011, through the amount available under the construction facility of $269.3 million and the undrawn credit facility of $191.4 million, it has sufficient funds for the property acquisition commitments and to complete the development of the Bow. Please see "Properties under Development" for further details on the costs to complete.

The REIT's capacity to fund future acquisitions, capital expenditures and commitments was in excess of $2.0 billion as at September 30, 2011. This represents the amount by which the REIT can increase its debt, subject to market availability, before the REIT reaches its maximum debt limitation of 65% of debt to its GBV of assets under its banking covenants.

The following summarizes term debt maturities for existing mortgages:

Year	Number of Properties	Mortgage Debt due on Maturity ($000's)	Weighted Average Interest Rate on Maturity	2012 Estimated Property Operating Income ($000's)[1]	Loan to Value[2]
2011	1	$2,480	5.4%	$638	27%
2012	21	268,698	6.7%	48,618	39%
2013	10	108,473	7.4%	24,240	31%
2014	8	182,632	6.2%	26,933	47%
2015	21	211,363[3]	5.3%	28,001	53%
2016	37	294,374	5.4%	39,857	52%
	98	$1,068,020		$168,287	46%

(1) Converting U.S. dollars to Canadian dollars at an exchange rate of $1.05.
(2) Using a 7% capitalization rate
(3) Excludes $18.0 million vendor takeback mortgage on land held for development.

Based on the low percentage of the projected loan to values of the maturing mortgages, the REIT is confident it will be able to refinance these mortgages upon maturity.

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 September 30, 2011, such guarantees amounted to $74.8 million (December 31, 2010 - $41.3 million), expiring between 2011 and 2016 and no amount has been provided for in the condensed combined interim financial statements of the Trusts for these items. These amounts arise where the REIT has guaranteed a co-owner's share of the mortgage liability. The REIT, however, customarily guarantees or indemnifies the obligations of its nominee companies which hold separate title to each of its properties owned.

In addition, the REIT continued to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable thereunder until such debts are extinguished or the lenders agree to release the REIT's covenants. At September 30, 2011, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk is approximately $114.2 million (December 31, 2010 - $116.4 million) with expiries between 2013 and 2018. There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in the condensed combined interim financial statements.

Related Party Transactions

H&R Property Management Ltd. (the "Property Manager"), a company partially owned by family members of the Chief Executive Officer, provides property management services for substantially all properties owned by the REIT, including leasing services, for a fee of 2% of gross revenue. The Property Manager also provides support services in connection with the acquisition, disposition and development activities of the REIT and is also entitled to an incentive fee. Acquisitions and development support services are provided for a fee of 2/3 of 1% of total acquisition and development costs. The support services relating to dispositions of investment properties are provided for a fee of 10% of the gain on sale of investment properties adjusted for the add back of accumulated depreciation and amortization. Services are provided by the Property Manager pursuant to a property management agreement which expires on January 1, 2015 with one automatic five-year extension.

During the three months ended September 30, 2011, the REIT recorded fees pursuant to this agreement of $4.6 million (September 30, 2010 - $3.9 million), of which $0.2 million (September 30, 2010 - $0.4 million) was capitalized to the cost of the investment properties acquired, $1.2 million (September 30, 2010 - $0.7 million) was capitalized to properties under development and $0.2 million (September 30, 2010 - $0.7 million) was capitalized to leasing expenses. The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the three months ended September 30, 2011, a further amount of $0.9 million (September 30, 2010 - $0.6 million) has been earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager.

During the nine months ended September 30, 2011, the REIT recorded fees pursuant to this agreement of $14.4 million (September 30, 2010 - $11.1 million), of which $3.6 million (September 30, 2010 - $0.8 million) was capitalized to the cost of the investment properties acquired, $1.7 million (September 30, 2010 - $1.8 million) was capitalized to properties under development and $3.1 million (September 30, 2010 - $1.5 million) was capitalized to leasing expenses. The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the nine months ended September 30, 2011, a further amount of $2.6 million (September 30, 2010 - $1.9 million) has been earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager.

Pursuant to the above agreement, as at September 30, 2011, $2.5 million (December 31, 2010 - $1.7 million) was payable to the Property Manager.

The REIT leases space to companies affiliated with the Property Manager. The rental income earned for the three months ended September 30, 2011 is $0.3 million (September 30, 2010 - $0.3 million) and for the nine months ended September 30, 2011 is $1.0 million (September 30, 2010 - $1.0 million).

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Where appropriate, the REIT uses forward contracts to lock in lending rates on certain anticipated mortgages. This strategy provides certainty to the rate of interest on borrowings when the REIT is involved in transactions that close further into the future than during the normal timeframe of a transaction. At September 30, 2011, the REIT had no such forward contracts in place.

Where appropriate, the REIT uses forward exchange contracts to lock in foreign exchange rates. This strategy provides certainty in the foreign exchange rates on transactions that will occur in the future. The REIT has entered into a forward exchange contract with a Canadian chartered bank, which effectively locks in the REIT's rate to exchange, U.S. $2 million per month at a rate of 1.0402. This forward exchange contract expires in April 2012.

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

SECTION III

SUMMARY OF QUARTERLY RESULTS

(unaudited) (in thousands of Canadian dollars)	**September 30, 2011**	June 30, 2011	March 31, 2011	December 31, 2010
Rentals from investment properties	**$169,582**	$155,861	$153,294	$160,700
Finance income	**215**	228	366	265
Net earnings (loss)	**58,301**	9,074	(31,314)	60,648
Total comprehensive income (loss)	**72,478**	7,586	(34,352)	55,787

	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009[(1)]
Rentals from investment properties	$152,778	$151,369	$152,580	$151,668
Finance income	248	802	1,274	1,621
Net earnings(loss)	(12,107)	505,151	(57,092)	29,870
Total comprehensive income (loss)	(15,068)	509,619	(59,900)	31,678

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

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

SECTION IV

CRITICAL ACCOUNTING ESTIMATES

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

Management believes the policies which are most subject to estimation and judgements are outlined below. For a detailed description of these and other accounting policies refer to note 2 of the September 30, 2011 unaudited condensed consolidated interim financial statements of the REIT.

Leases

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

Impairment of Assets

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

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

Depreciation of Investment Properties

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

Property Acquisitions

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

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

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

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

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

Income Tax

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

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

Deferred income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on deferred income tax assets and liabilities of a change in tax rate is recognized in income or unitholders' equity, as appropriate, in the period that includes the date of enactment or substantive enactment.

DISCLOSURE CONTROLS AND PROCEDURES ("DC&P")

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of each Trust has reviewed its internal control over financial reporting as part of the conversion from Canadian GAAP to IFRS. The most significant change to each Trust's control environment is the disclosure of the fair value of investment properties in the notes to the financial statements. Management has implemented controls and processes to ensure that accurate fair values can be determined. Other than Canadian GAAP to IFRS, no changes were made to the design of either Trust's internal control over financial reporting during the three and nine months ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Trusts' internal control over financial reporting

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

SECTION V

RISKS AND UNCERTAINTIES

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

Credit Risk and Tenant Concentration

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

Lease Rollover Risk

Lease rollover risk arises from the possibility that the REIT may experience difficulty renewing leases as they expire. Management attempts to enter into long-term leases to mitigate this risk. Only 24.0% of the total leasable area will expire in the next 6 years.

Interest and Financing Risk

In the low interest rate environment that the Canadian economy has experienced in recent years, leverage has enabled the REIT to enhance its return to unitholders. A reversal of this trend, however, can significantly affect the business's ability to meet its financial obligations. In order to minimize this risk, the REIT negotiates fixed rate term debt with staggered maturities on the portfolio and

attempts to match average lease maturity to average debt maturity. Derivative financial instruments may be utilized by the REIT in the management of its interest rate exposure. In addition, the REIT's Declaration of Trust restricts total indebtedness permitted on the portfolio.

Tax Risk

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

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

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

The REIT operates in the United States through U.S. Holdco which is capitalized with equity provided by the REIT and debt in the form of U.S. Holdco Notes owed to Finance Trust and HRLP. As at September 30, 2011, U.S. Holdco owed $138.5 million to Finance Trust and HRLP which is eliminated on the combined financial statements.

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

To the extent that the REIT or a related party provided debt financing to U.S. Holdco (e.g., by acquiring U.S. Holdco Notes), in determining income for U.S. tax purposes, U.S. Holdco is subject to possible limitations on the deductibility of interest, if any, paid to the REIT. Section 163(j) of the U.S. Internal Revenue Code (the "Code") applies to defer U.S. Holdings' deduction of interest paid on debt to the REIT in years that (i) the debt to equity ratio of U.S. Holdings exceeded 1.5:1, and (ii) the net interest expense exceeds an amount equal to 50% of its "adjusted taxable income" (generally, earnings before interest, taxes, depreciation, and amortization). The REIT intends to take the position that, due to the treatment of Finance Trust as a grantor trust that is disregarded for U.S. federal tax purposes, the interest paid to Finance Trust is treated as having been paid to the holders of the Finance Trust units and is therefore not subject to section 163(j). If section 163(j) applied to interest paid to Finance Trust, depending on the facts and circumstances and the availability of net operating losses to U.S. Holdco (which are subject to normal assessment by the IRS), the U.S. federal income tax liability of U.S. Holdings could increase. In such case, the amount of income available for distribution by the REIT to its unitholders could be reduced.

A foreign corporation will be classified as a passive foreign investment company ("PFIC") for United States federal income tax purposes if either (i) 75% or more of its gross income is passive income or (ii) on average for the taxable year, 50% or more of its assets (by value) produce or are held for the production of passive income. The properties of the REIT are managed by a third party rather than directly by its own employees. Although the REIT's officers and employees oversee the activities of the manager, it is likely that the REIT will be characterized as a PFIC for U.S. federal income tax purposes, though this conclusion is uncertain. In the absence of certain elections being made by a U.S. holder of REIT units, any distributions in respect of the REIT units which exceed 125% of the average amount of distributions in respect of such REIT units during the preceding three years, or, if shorter, during the

preceding years in the U.S. holder's holding period ("excess distributions") and any gain on a sale or other disposition of the REIT units will be treated as ordinary income and will be subject to special tax rules, including an interest charge. U.S. holders should consult with their own tax advisors regarding the implications of these rules and the advisability of making one of the applicable PFIC elections, taking into account their particular circumstances.

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

On July 20, 2011, the Department of Finance announced proposed amendments to the provisions of the Tax Act concerning the income tax treatment of SIFTs, real estate investment trusts ("Real Estate Trusts") and publicly traded corporations. The proposed amendments include changes which impact publicly traded stapled securities of SIFTs, Real Estate Trusts and corporations. The proposals include amendments which will deny a deduction for payments made by another entity to a Real Estate Trust, or to a subsidiary of a Real Estate Trust. The stapled unit structure of the Trusts (TSX: HR.UN; HR.DB; HR.DB.B; HR.DB.C; HR.DB.D) does not involve the kinds of payments that are targeted by the proposed amendments. In particular, the REIT does not receive interest or other income from Finance Trust. Finance Trust only receives interest income from a U.S. corporation which is a wholly owned subsidiary of the REIT. Based on the information available in the Department of Finance's press release, the Trusts expect that the amendments will not affect the Stapled Unit structure. Detailed draft legislation was not released by the government as at November 14, 2011, but will be reviewed by the REIT as soon as it is released.

Environmental Risk

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

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

Availability of Cash for Distributions

The REIT's current proposed distribution policy is outlined under "Outlook". As the monthly cash distribution paid by Finance Trust fluctuates monthly, the monthly cash distribution paid by the REIT will also fluctuate in order to result in an aggregate monthly cash distribution as previously outlined. Although the REIT intends to make distributions of its available cash to unitholders in accordance with its distribution policy, these cash distributions may be reduced or suspended. The actual amount distributed by the REIT will depend on numerous factors including monthly cash distributions paid by Finance Trust, capital market conditions, the financial performance of the properties, the REIT's debt covenants and obligations, its working capital requirements, its future capital requirements, its development commitments and fluctuations in interest rates. Cash available to the REIT for distributions may be reduced from time to time because of items such as principal repayments on debt, tenant allowances, leasing commissions, capital expenditures or any other business needs that the trustees deem reasonable. The REIT may be required to use part of its debt capacity in order to accommodate any or all of the above items. The market value of Stapled Units may decline significantly if the REIT and/or Finance Trust suspends or reduces distributions. The REIT trustees retain the right to re-evaluate the distribution policy from time to time as they consider appropriate.

Development and Financing Risk Relating to the Bow Development

The REIT entered into agreements to develop the Bow an approximately 2.0 million square foot office and retail complex in Calgary. The North Block budget, of approximately $1.61 billion (including capitalized interest), is pre-leased, on a triple net basis, to EnCana Corporation for an initial term of approximately 25 years. It is currently expected that the building will be occupied in tranches commencing in Q1 2012 with full occupancy expected by Q4 2012. Any further delay in the delivery of the tranches could result in a penalty of $1.67 per square foot per month. 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 96% of the hard cost budget. The REIT is also at risk for interest rate fluctuations on this project during the construction period. To mitigate this risk, the REIT entered into an interest rate swap which is intended to limit the interest rate to an effective annual rate of 4.65%.

Construction Risks

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

Debentures

The likelihood that purchasers of the 2013, 2014, 2017 and 2020 convertible debentures and the Series A, B, C and D senior debentures will receive payments owing to them under the terms of such debentures will depend on the financial health of the REIT and its creditworthiness. In addition, such debentures are unsecured obligations of the REIT and are subordinate in right of payment to all the REIT's existing and future senior indebtedness as defined in each such respective trust indenture. Therefore, if the REIT becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the REIT's assets will be available to pay its obligations with respect to such debentures only after it has paid all of its senior indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the debentures then outstanding.

The debentures are also effectively subordinate to claims of creditors (including trade creditors) of the REIT's subsidiaries except to the extent the REIT is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. Finance Trust is a creditor of U.S. Holdco, a subsidiary of the REIT. A parent entity is entitled only to the residual equity of its subsidiaries after all debt obligations of its subsidiaries are discharged. In the event of bankruptcy, liquidation or reorganization of the REIT, holders of indebtedness of the REIT (including holders of the convertible debentures, may become subordinate to lenders to the subsidiaries of the REIT. The indentures governing such debentures do not prohibit or limit the ability of the REIT or its subsidiaries to incur additional debt or liabilities (including senior indebtedness) to amend and modify the ranking of any indebtedness or to make distributions, except, in respect of distributions, where an event of default has occurred and such default has not been cured or waived. The indentures do not contain any provision specifically intended to protect holders of debentures in the event of a future leveraged transaction involving the REIT.

OUTSTANDING UNIT DATA

The beneficial interests in the Trusts are represented by a single class of Stapled Units which are unlimited in number. Each unit carries a single vote at any meeting of unitholders. As at November 10, 2011, there were 157,875,515 Stapled Units issued and outstanding.

As at September 30, 2011, the maximum number of Stapled Units authorized to be granted under the REIT's Unit Option Plan was 18,000,000. Of this amount, 8,700,000 had been granted and 6,381,167 had been exercised and expired. As at November 10, 2011, there were 2,318,833 options to purchase Stapled Units outstanding of which 693,835 are fully vested.

The following table lists the principal outstanding balance of the REIT's convertible debentures as at November 10, 2011 and the number of Stapled Units required to convert the convertible debentures to equity:

Convertible Debentures	Principal outstanding as at November 10, 2011	Maximum number of Stapled Units issuable
2013 6.65% Debentures	$115.0 million	4,976,201
2014 6.75% Debentures	133.4 million	9,529,714
2017 6.00% Debentures	170.2 million	8,955,579
2020 5.90% Debentures	100.0 million	4,254,894

SUBSEQUENT EVENTS

a) In October 2011, the REIT purchased a 115,000 square foot retail property in Voorhees, New Jersey for a purchase price of U.S. $15.9 million. A mortgage payable of approximately U.S. $9.3 million was assumed on closing.

b) In October 2011, the REIT purchased a Class A office tower in Long Island City, New York for U.S. $415.5 million and secured a U.S. $250 million 10-year mortgage at an annual interest rate of 4.25%.

c) In October 2011, the REIT completed a public offering of $100 million of 4.90% Series E Senior Debentures due February 2, 2018.

d) In early November 2011, the REIT and Finance Trust agreed to sell to a syndicate of underwriters, on a bought deal basis, 8,500,000 Stapled Units for gross proceeds of $187 million and $75 million of 4.50% unsecured convertible debentures due December 31, 2016. Closing of these offerings is expected to occur in the latter part of November 2011.

ADDITIONAL INFORMATION

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