Unaudited Condensed Combined Interim Financial Statements of

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

For the three months ended March 31, 2013 and 2012

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

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

	March 31 2013	December 31 2012	January 1 2012
	(Unaudited)	(note 2)	(note 2)
Assets			
Real estate assets			
Investment properties (note 3)	**$ 9,345,843**	$ 9,235,562	$ 7,094,147
Properties under development (notes 3 and 4)	**129,217**	128,220	1,721,743
	9,475,060	9,363,782	8,815,890
Investments in joint ventures (note 5)	**276,578**	276,357	46,813
Mortgages and amount receivable	**103,668**	6,960	7,080
Assets classified as held for sale (note 6)	**25,184**	27,973	-
Other assets (note 7)	**55,829**	66,518	48,557
Cash and cash equivalents (note 8)	**32,099**	131,460	11,000
	$ 9,968,418	$ 9,873,050	$ 8,929,340
Liabilities and Unitholders' Equity			
Liabilities			
Mortgages payable (note 9)	**$ 3,754,367**	$ 3,813,613	$ 3,092,618
Debentures payable (note 10)	**1,194,599**	1,203,791	1,370,917
Exchangeable units (note 11)	**127,185**	131,045	126,695
Deferred tax liability (note 23)	**52,087**	43,407	-
Unit options payable (note 12(a))	**9,363**	10,585	8,640
Derivative instruments (note 13)	**555**	601	6,072
Bank indebtedness (notes 14)	**23,888**	2,905	440,173
Accounts payable and accrued liabilities (note 15)	**192,906**	160,091	173,682
	5,354,950	5,366,038	5,218,797
Unitholders' equity	**4,613,468**	4,507,012	3,710,543
Commitments and contingencies (note 25)			
Subsequent events (note 26)			
	$ 9,968,418	$ 9,873,050	$ 8,929,340

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

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

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

	Three months ended March 31	
	2013	2012
		(note 2)
Property operating income:		
Rentals from investment properties (notes 17 and 22)	**$ 222,628**	$ 182,971
Property operating costs	**(71,588)**	(59,745)
	151,040	123,226
Net income from investments in joint ventures (note 5)	**6,523**	8,223
Finance costs:		
Finance income	**745**	624
Finance cost - operations (note 18)	**(65,991)**	(51,293)
Gain on change in fair value (note 19)	**12,228**	4,642
	(53,018)	(46,027)
Amortization of leasing expenses	**(1,576)**	(1,613)
Trust expenses	**(862)**	(4,172)
Fair value adjustment on real estate assets (note 3)	**38,556**	126,950
Loss on sale of real estate assets	**(1,820)**	-
Gain (loss) on foreign exchange	**4,876**	(5,340)
Transaction costs on business combination (note 26(a))	**(4,162)**	-
Net income before income taxes	**139,557**	201,247
Income tax expense (note 23)	**(7,448)**	(1,921)
Net income	**132,109**	199,326
Other comprehensive income (loss) (note 16):		
Unrealized gain (loss) on translation of U.S. denominated foreign operations	**23,019**	(3,331)
Transfer of realized loss on cash flow hedges to net income	**102**	99
	23,121	(3,232)
Total comprehensive income all attributable to unitholders	**$ 155,230**	$ 196,094

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

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

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

UNITHOLDERS' EQUITY	Value of Units	Accumulated net income	Accumulated distributions	Accumulated other comprehensive income (loss) (note 16)	Total
Unitholders' equity, January 1, 2012	$ 2,789,459	$ 2,566,231	$ (1,635,275)	$ (9,872)	$ 3,710,543
Proceeds from issuance of units	15,802	-	-	-	15,802
Net income	-	199,326	-	-	199,326
Distributions to unitholders (note 12(b))	-	-	(48,002)	-	(48,002)
Conversion of convertible debentures, (note 10), net	178,025	-	-	-	178,025
Other comprehensive loss	-	-	-	(3,232)	(3,232)
Unitholders' equity, March 31, 2012	2,983,286	2,765,557	(1,683,277)	(13,104)	4,052,462
Proceeds from issuance of units	202,885	-	-	-	202,885
Issue costs	(6,606)	-	-	-	(6,606)
Net income	-	309,534	-	-	309,534
Distributions to unitholders	-	-	(167,477)	-	(167,477)
Conversion of convertible debentures (note 10), net	127,981	-	-	-	127,981
Other comprehensive loss	-	-	-	(11,767)	(11,767)
Unitholders' equity, December 31, 2012	3,307,546	3,075,091	(1,850,754)	(24,871)	4,507,012
Proceeds from issuance of units	16,596	-	-	-	16,596
Net income	-	132,109	-	-	132,109
Distributions to unitholders (note 12(b))	-	-	(65,798)	-	(65,798)
Conversion of convertible debentures (note 10), net	428	-	-	-	428
Other comprehensive income	-	-	-	23,121	23,121
Unitholders' equity, March 31, 2013	$ 3,324,570	$ 3,207,200	$ (1,916,552)	$ (1,750)	$ 4,613,468

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

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

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

	Three months ended March 31	
	2013	2012
		(note 2)
Cash provided by (used in):		
Operations:		
Net income	**$ 132,109**	$ 199,326
Items not affecting cash:		
Net income from investments in joint ventures (note 5)	**(6,523)**	(8,223)
Finance cost - operations (note 18)	**65,991**	51,293
Rent amortization of tenant inducements (note 17)	**364**	366
Amortization of leasing expenses	**1,576**	1,613
Loss (gain) on foreign exchange	**(4,889)**	5,342
Fair value adjustment on real estate assets (note 3)	**(38,556)**	(126,950)
Loss on sale of real estate assets	**1,820**	-
Gain on change in fair value (note 19)	**(12,228)**	(4,642)
Unit-based compensation (note 12(a))	**(1,222)**	2,237
Deferred tax liability (note 23)	**7,293**	1,734
Change in other non-cash operating items (note 20)	**(8,635)**	18,565
	137,100	140,661
Investing:		
Properties under development	**(997)**	(52,869)
Investment properties:		
Net proceeds on disposition of real estate assets	**19,342**	-
Acquisitions (note 3)	**(1,000)**	(198,897)
Redevelopment	**(21,780)**	-
Capital expenditures (note 3)	**(1,794)**	(1,103)
Leasing expenses and tenant inducements (note 3)	**(2,522)**	(1,102)
Distributions from joint ventures	**6,302**	1,200
Mortgages receivable	**(80,400)**	-
Restricted cash (note 7)	**17,081**	10,739
	(65,768)	(242,032)
Financing:		
Bank indebtedness	**20,983**	(65,473)
Interest paid	**(60,440)**	(78,653)
Mortgages payable:		
New mortgages payable	**-**	428,971
Principal repayments	**(97,715)**	(133,369)
Proceeds from issuance of units, net	**(24)**	2,167
Finance cost - exchangeable unit distributions (note 18)	**(1,835)**	(1,495)
Distributions to unitholders (note 12(b))	**(31,662)**	(35,074)
	(170,693)	117,074
Increase (decrease) in cash and cash equivalents	**(99,361)**	15,703
Cash and cash equivalents, beginning of year (note 8)	**131,460**	11,000
Cash and cash equivalents, end of period (note 8)	**$ 32,099**	$ 26,703

Supplemental cash flow information (note 20).

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

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

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

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

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

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

1. Basis of preparation:

(a) Statement of compliance

These unaudited condensed combined interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting.* Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed. The December 31, 2012 financial information has been derived from the December 31, 2012 audited annual combined financial statements.

The unaudited condensed combined interim financial statements were approved by the Board of Trustees on May 13, 2013.

1. Basis of preparation (continued):

(b) Basis of measurement

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

(i) Real estate assets;

(ii) Derivative financial instruments;

(iii) Liabilities for cash-settled unit-based compensation; and

(iv) Financial instruments at fair value through net income (loss).

(c) Functional currency and presentation

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

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

(d) Use of estimates and judgements

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

(i) Use of estimates

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

- Fair value of real estate assets;
- Fair value of financial instruments; and
- Fair value of cash-settled unit-based compensation.

1. Basis of preparation (continued):

(ii) Use of judgements

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

- Valuations of real estate assets

  Real estate assets, which consist of investment properties and properties under development, are carried on the unaudited condensed combined interim statements of financial position at fair value, as determined by either qualified external valuation professionals or by management. The valuations are based on a number of assumptions, such as appropriate discount rates and capitalization rates and estimates of future rental income, operating expenses and capital expenditures. Valuation of real estate assets is one of the principal estimates and uncertainties of these unaudited condensed combined interim financial statements. Refer to note 3 for further information on estimates and assumptions made in the determination of the fair value of real estate assets.

- Leases

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

- Income taxes

  The REIT is a mutual fund trust and a real estate investment trust pursuant to the Income Tax Act (Canada) (“Tax Act”). 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 Tax Act relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the REIT Conditions and has assessed its interpretation and application to the REIT's assets and revenue, and it has determined that it qualifies as a real estate investment trust pursuant to the Tax Act. The REIT expects to continue to qualify as a real estate investment trust; however, should it no longer qualify it would not be able to flow through its taxable income to unitholders and the REIT would be subject to tax.

- Tenant improvements

  The REIT makes judgments with respect to whether tenant improvements provided in connection with a lease enhance the value of the leased property, which determines whether such amounts are capitalized to investment properties.

2. Significant accounting policies:

Except as described below, the accounting policies applied by the Trusts in these unaudited condensed combined interim financial statements are the same as those applied by the Trusts in its combined financial statements as at and for the year ended December 31, 2012.

(a) Effective December 31, 2012, The REIT has elected to record investment properties at fair value. This change in accounting policy was applied on a retrospective basis. The December 31, 2012 and January 1, 2012 statements of financial position were restated for this change in the December 31, 2012 combined financial statements.

The REIT no longer depreciates investment properties but continues to amortize deferred leasing expenses and tenant inducements. Additionally, accrued rent receivable is no longer recorded as a separate asset as it is considered to be implicit in the fair value of real estate assets.

(b) Effective January 1, 2013, the Trusts have adopted IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), which replaces IAS 27, *Consolidated and Separate Financial Statements.* Under IFRS 10, the Trusts will now assess whether they have control over an investee by determining when: (i) it has power over the investee; (ii) it is exposed or has rights to variable returns from its involvement with that investee; (iii) it has the ability to affect those returns through its power over that investee. The Trusts have assessed the impact of adopting IFRS 10 and has determined that it has no significant impact on the unaudited condensed combined interim financial statements.

(c) Effective January 1, 2013, the Trusts have adopted IFRS 11, *Joint Arrangements* ("IFRS 11"), which replaces IAS 31, *Interests in Joint Ventures*. IFRS 11 separates investments in joint arrangements into two types: joint operations and joint ventures. The REIT has assessed their investments in joint arrangements to determine which type of arrangement they are, and whether there is a change from their historical accounting for these joint arrangements. Based on the guidance in IFRS 11, the REIT has reassessed their investments in joint arrangements to determine whether the historical accounting for these investments will change under the new standards.

(i) Joint Operations

The Trusts consider investments in joint arrangements to be a joint operation when they jointly make operating, financial and strategic decisions over one or more investment properties with another party and have direct rights to the assets, and obligations for the liabilities relating to the arrangement. When the arrangement is considered to be a joint operation, the Trusts will include their share of the underlying assets, liabilities, revenue and expenses in their financial results.

(ii) Joint Ventures

The Trusts consider investments in joint arrangements to be joint ventures when they jointly own one or more investment properties with another party and have rights to the net assets of the arrangements. This occurs when the joint arrangement is structured through a separate vehicle, such as a partnership, with separation maintained. When the arrangement is considered to be a joint venture, the Trusts will account for it using equity accounting.

2. Significant accounting policies (continued):

Under equity accounting, the investment in the joint venture is carried on the unaudited condensed combined interim statement of financial position at cost, adjusted for the REIT's proportionate share of post-acquisition changes in the joint venture's net assets, less any identified impairment loss. The REIT's share of profits and losses is recognized in the share of net income from joint venture investments in the unaudited condensed combined interim statements of comprehensive income

A joint venture is considered to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the joint venture and that loss has an impact on the estimated future cash flows of the joint venture that can be reliably estimated.

This change in accounting policy was applied on a retrospective basis.

(d) Effective January 1, 2013, the Trusts adopted IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12") which replaces 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. These 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. The adoption of IFRS 12 has resulted in the Trusts expanding its disclosure relating to interests in other entities, as shown in note 5.

(In thousands of Canadian dollars, except unit and per unit amounts)

2. Significant accounting policies (continued):

The impact of the adoption of IFRS 11 on the Statement of Financial Position as discussed in note 2(c) is as follows:

	December 31, 2012			January 1, 2012		
Statement of Financial Position:	As originally reported	Impact of adoption	Restated	As originally reported	Impact of adoption	Restated
Assets						
Real estate Assets						
Investment properties	$ 9,807,062	$ (571,500)	$ 9,235,562	$ 7,210,997	$ (116,850)	$ 7,094,147
Properties under development	128,220	-	128,220	1,721,743	-	1,721,743
	9,935,282	(571,500)	9,363,782	8,932,740	(116,850)	8,815,890
Investments in joint ventures	-	276,357	276,357	-	46,813	46,813
Mortgages and amount receivable	6,960	-	6,960	7,080	-	7,080
Assets classified as held for sale	27,973	-	27,973	-	-	-
Other assets	67,122	(604)	66,518	49,053	(496)	48,557
Cash and cash equivalents	134,470	(3,010)	131,460	13,609	(2,609)	11,000
	$ 10,171,807	$ (298,757)	$ 9,873,050	$ 9,002,482	$ (73,142)	$ 8,929,340
Liabilities and Unitholders' Equity						
Liabilities						
Mortgages payable	$ 4,095,915	$ (282,302)	$ 3,813,613	$ 3,163,593	$ (70,975)	$ 3,092,618
Debentures payable	1,203,791	-	1,203,791	1,370,917	-	1,370,917
Exchangeable units	131,045	-	131,045	126,695	-	126,695
Deferred tax liability	43,407	-	43,407	-	-	-
Unit options payable	10,585	-	10,585	8,640	-	8,640
Derivative Instruments	601	-	601	6,072	-	6,072
Bank indebtedness	2,905	-	2,905	440,173	-	440,173
Accounts payable and accrued liabilities	176,546	(16,455)	160,091	175,849	(2,167)	173,682
	5,664,795	(298,757)	5,366,038	5,291,939	(73,142)	5,218,797
Unitholders' equity	4,507,012	-	4,507,012	3,710,543	-	3,710,543
	$ 10,171,807	$ (298,757)	$ 9,873,050	$ 9,002,482	$ (73,142)	$ 8,929,340

(In thousands of Canadian dollars, except unit and per unit amounts)

2. Significant accounting policies (continued):

The impact of changes in accounting policies made by the REIT, as discussed in notes 2(a) and (c) on the March 31, 2012 period, are as follows:

	Three months ended March 31, 2012			
Statement of Comprehensive Income:	As originally reported	Note 2(a)	Note 2(c)	Restated under fair value
Property operating income:				
Rentals from investment properties	$ 186,286	$	$ (3,315)	$ 182,971
Property operating costs	(61,089)	-	1,344	(59,745)
	125,197	-	(1,971)	123,226
Net income from investments in joint ventures	-	-	8,223	8,223
Finance costs:				
Finance income	624	-	-	624
Finance cost - operations	(52,064)	-	771	(51,293)
Gain on change in fair value	4,642	-	-	4,642
	(46,798)	-	771	(46,027)
Amortization and impairment	(52,179)	50,566	-	(1,613)
Trust expenses	(4,172)	-	-	(4,172)
Fair value adjustment of real estate assets	-	133,973	(7,023)	126,950
Loss on foreign exchange	(5,105)	(235)	-	(5,340)
Net income (loss) before income taxes	16,943	184,304	-	201,247
Income tax expense	(187)	(1,734)	-	(1,921)
Net income (loss)	16,756	182,570	-	199,326
Other comprehensive income (loss):				
Unrealized loss on translation of U.S. denominated foreign operations	(841)	(2,490)	-	(3,331)
Transfer of realized loss on cash flow hedges to net income	99	-	-	99
	(742)	(2,490)	-	(3,232)
Total comprehensive income all attributable to unitholders	$ 16,014	$ 180,080	$ -	$ 196,094

Statement of Cash Flows:

The adjustments noted above have also been made to the combined statement of cash flows for the same period. This change in accounting policy did not result in other significant changes to the combined statement of cash flows.

(In thousands of Canadian dollars, except unit and per unit amounts)

3. Real estate assets:

	Investment Properties	Properties Under Development	Investment Properties	Properties Under Development
	March 31		December 31	
	2013	2013	2012*	2012
Opening balance, beginning of year	$9,235,562	$ 128,220	$7,094,147	$1,721,743
Acquisitions of investment properties, including transaction costs	1,000	-	298,364	-
Additions to existing investment properties:				
Capital expenditures	1,794	-	19,850	-
Direct leasing costs	2,522	-	14,022	-
Redevelopment	12,543	-	-	-
Additions to properties under development	-	997	-	196,288
Dispositions	(9,732)	-	(133,153)	(17,824)
Transfer of investment properties held for sale (note 6)	(25,000)	-	(27,800)	-
Amortization of leasing costs, straight-line rents and blend and extend rents included in revenue	22,187	-	(4,573)	29,673
Transfer of property under development that has reached practical completion	-	-	1,747,966	(1,747,966)
Change in foreign exchange	66,411	-	(64,644)	-
Fair value adjustment on real estate assets	38,556	-	291,383	(53,694)
Closing balance, end of period	$9,345,843	$ 129,217	$9,235,562	$ 128,220

* These amounts have been restated for the effect of note 2(c).

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

(In thousands of Canadian dollars, except unit and per unit amounts)

3. Real estate assets (continued):

Acquisitions:

During the three months ended March 31, 2013, the REIT acquired a parcel of land adjacent to an existing investment property (twelve months ended December 31, 2012 - 11 investment properties and one investment in joint venture). The results of operations for these acquisitions are included in these unaudited condensed combined interim financial statements from the date of acquisition.

The following table summarizes the cost plus transaction costs of the assets and liabilities as at the respective dates of acquisition:

	March 31 2013	December 31 2012
Assets		
Investment properties	$ 455	$ 296,683
Investment in joint venture (note 5)	-	439,062
Liabilities		
Mortgages payable, net of mark to market adjustments	-	7,173
Total identifiable net assets settled by cash	$ 455	$ 728,572

During the three months ended March 31, 2013, the REIT incurred additional costs of $545 (December 31, 2012 - $1,681) in respect to prior year acquisitions which are not included in the above table.

Fair value disclosure:

The estimated fair values of the REIT's real estate assets are based on the following methods and key assumptions:

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

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

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

(iv) The use of external independent appraisers. During the three months ended March 31, 2013, certain properties were valued by professional external independent appraisers. These properties make up 16.3% of the portfolio as at March 31, 2013 (twelve months ended December 31, 2012 - 42.6%). The remainder of the portfolio is valued by the REIT's internal valuation team.

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

(In thousands of Canadian dollars, except unit and per unit amounts)

3. Real estate assets (continued):

The REIT has utilized the following weighted average discount rates and terminal capitalization rates in estimating the fair value of the real estate assets and those classified as held for sale properties (excluding properties under development), including those investment properties accounted for as joint ventures:

	Discount Rate			Terminal Capitalization Rate		
	Canada	United States	Total	Canada	United States	Total
March 31, 2013	6.64%	7.58%	6.82%	6.15%	7.22%	6.36%
December 31, 2012	6.67%	7.59%	6.88%	6.18%	7.22%	6.41%

The REIT's average capitalization rate is 6.5%; Canadian properties - 6.4% and U.S. properties- 6.7% (December 31, 2012 - 6.5%; Canadian properties - 6.4% and U.S. properties - 6.9%) based on property operating income for the three months ended March 31, 2013 (December 31, 2012 - three months ended December 31, 2012) adjusted for; straight-lining of contractual rent, rent amortization of tenant inducements, one-time non-recurring capital expenditure recoveries and property operating income from the Bow. The fair value of the Bow $1,760,184 (December 31, 2012 - $1,747,966) has been excluded from this calculation as the Bow was not generating full property operating income during the three months ended March 31, 2013 due to Encana utilizing their delay penalty rent credit.

4. Properties under development:

Project	Address	March 31 2013	December 31 2012
Heart Lake	Mayfield West Business Park, Caledon, ON	$ 77,169	$ 76,650
Airport Road	7900 Airport Road, Brampton, ON	52,048	51,570
		$ 129,217	$ 128,220

5. Investments in joint ventures:

The REIT participates in joint arrangements with other parties for the purpose of owning and operating investment properties. Each of these arrangements has been structured as a separate vehicle, and provides the REIT with rights to the net assets of the entities. Accordingly, the REIT has classified the following investments as joint ventures and accounts for them using the equity method. During the year ended December 31, 2012, the REIT acquired a net interest in a joint venture for $439,062 inclusive of transaction costs. The REIT's interests in joint ventures are outlined as follows:

			Ownership interest (%)	
Name	Location	Principal activity	March 31 2013	December 31 2012
Scotia Plaza	Toronto, Ontario	Own and operate investment property	33.3	33.3
Telus Tower	Calgary, Alberta	Own and operate investment property	50.0	50.0

(In thousands of Canadian dollars, except unit and per unit amounts)

5. Investments in joint ventures (continued):

The following tables summarize the total amounts of the financial information of Scotia Plaza and Telus Tower, and reconciles the summarized financial information to the carrying amount of the REIT's interest in these arrangements:

	March 31 2013	December 31 2012	January 1 2012
Investments in joint ventures:			
Investment properties	$ 1,586,500	$ 1,583,000	$ 233,700
Loan receivable	64,300	64,300	64,300
Other assets	1,948	1,351	992
Cash and cash equivalents	8,668	6,746	5,218
Mortgages payable	(776,891)	(777,548)	(141,951)
Accounts payable and accrued liabilities	(55,702)	(46,492)	(4,333)
Net assets	828,823	831,357	157,926
REIT's share of net assets	308,728	308,507	78,963
Elimination of intercompany loan receivable	(32,150)	(32,150)	(32,150)
Carrying amount in the statement of financial position	$ 276,578	$ 276,357	$ 46,813

	Three months ended March 31 2013	2012
Net income from investments in joint ventures:		
Rentals from investment properties	$ 38,367	$ 6,631
Property operating costs	(17,378)	(2,689)
Finance income	695	681
Finance cost - operations	(6,860)	(1,543)
Gain on change in fair value	2,537	14,046
Net income	17,361	17,126
REIT's share of net income	6,857	8,563
Elimination of intercompany loan interest	(334)	(340)
Carrying amount in the statement of comprehensive income	$ 6,523	$ 8,223

(In thousands of Canadian dollars, except unit and per unit amounts)

6. Assets classified as held for sale:

As at March 31, 2013, there was one property held for sale: 1235 Bay Street, Toronto, ON which was sold subsequent to March 31, 2013 (note 26(b)) (December 31, 2012 - two properties; 1330 Martin Grove Ave., Toronto, ON and 295 The West Mall, Etobicoke, ON).

The following table sets forth the balance sheet items associated with investment properties classified as held for sale:

	March 31 2013	December 31 2012
Assets		
Investment properties	$ 25,000	$ 27,800
Other assets:		
Accounts receivable	69	106
Prepaid expenses and sundry assets	115	67
	$ 25,184	$ 27,973

7. Other assets:

	March 31 2013	December 31 2012
Current:		
Restricted cash*	$ 23,266	$ 40,347
Accounts receivable	16,940	16,733
Prepaid expenses and sundry assets	14,557	7,759
Derivative instruments (note 13)	1,066	1,679
	$ 55,829	$ 66,518

* Included in restricted cash are bank term deposits of $4,000 (December 31, 2012 - $4,000) at a rate of interest of 1.07% (December 31, 2012 - 1.00%).

8. Cash and cash equivalents:

Cash and cash equivalents at March 31, 2013 includes cash on hand of $31,845 (December 31, 2012 - $81,142) and bank term deposits of $254 (December 31, 2012 - $50,318) at a rate of interest of 0.93% (December 31, 2012 - 0.91%).

(In thousands of Canadian dollars, except unit and per unit amounts)

9. Mortgages payable:

The mortgages payable are secured by real estate assets and letters of credit in certain cases, bearing fixed interest with a contractual weighted average rate of 5.19% (December 31, 2012 - 5.25%) per annum and maturing between 2013 and 2035. Included in mortgages payable at March 31, 2013 are U.S. dollar denominated mortgages of U.S. $1,273,221 (December 31, 2012 - U.S. $1,282,436). The Canadian equivalents of these amounts are $1,298,685 (December 31, 2012 - $1,269,612).

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

Future principal mortgage payments are as follows:

	March 31 2013
Years ending December 31:	
2013*	$ 150,505
2014	312,797
2015	349,265
2016	358,397
2017	466,324
Thereafter	2,122,588
	3,759,876
Financing costs and mark-to-market adjustment arising on acquisitions	(5,509)
	$ 3,754,367

* For the balance of the year

(In thousands of Canadian dollars, except unit and per unit amounts)

10. Debentures payable:

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

	Maturity	Contractual interest rate	Effective interest rate	Conversion price	Face value	March 31 2013 Carrying value	December 31 2012 Carrying value
Convertible Debentures (a)							
2017 Convertible Debentures (HR.DB.C)	June 30, 2017	6.00%	6.00%	$ 19.00	$167,965	$205,404	$213,304
2020 Convertible Debentures (HR.DB.D)	June 30, 2020	5.90%	5.90%	$ 23.50	99,654	107,656	109,896
2016 Convertible Debentures (HR.DB.E)	December 31, 2016	4.50%	4.50%	$ 25.70	75,000	78,000	77,250
					342,619	391,060	400,450
Senior Debentures (b)							
Series A Senior Debentures	February 3, 2015	5.20%	5.40%	-	115,000	114,579	114,548
Series B Senior Debentures	February 3, 2017	5.90%	6.06%	-	115,000	114,356	114,343
Series C Senior Debentures	December 1, 2018	5.00%	5.30%	-	125,000	123,184	123,138
Series D Senior Debentures	July 27, 2016	4.78%	4.96%	-	180,000	179,022	178,984
Series E Senior Debentures	February 2, 2018	4.90%	5.22%	-	100,000	98,793	98,757
Series F Senior Debentures	March 2, 2020	4.45%	4.63%	-	175,000	173,605	173,571
					810,000	803,539	803,341
					$1,152,619	$1,194,599	$1,203,791

The carrying value of the Convertible Debentures (as defined below) is determined using the quoted price on March 31, 2013 and December 31, 2012.

(a) *Convertible Debentures:*

The 2017, 2020 and 2016 convertible debentures (collectively, the "Convertible Debentures") pay interest semi-annually on June 30 and December 31. Each Convertible Debenture is convertible into freely tradeable Stapled Units at the holder's option at (i) any time prior to the maturity date and (ii) the business day immediately preceding the date specified by the REIT for redemption of the Convertible Debentures, at a conversion price indicated in the table above.

(b) *Senior Debentures*

The Series A, B, C, D, E and F unsecured senior debentures (collectively, the "Senior Debentures") pay interest semi-annually. The Series A and B senior debentures pay interest on February 3 and August 3, the Series C senior debentures pay interest on June 1 and December 1, the Series D senior debentures pay interest on January 27 and July 27, the Series E senior debentures pay interest on February 2 and August 2 and the Series F senior debentures pay interest on March 2 and September 2.

(In thousands of Canadian dollars, except unit and per unit amounts)

10. Debentures payable (continued):

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

	March 31 2013	December 31 2012
Convertible Debentures (note 10(a))		
Carrying value, beginning of year	$ 400,450	$ 742,240
Conversion - 2013 Convertible Debentures*	-	(87,274)
Conversion - 2014 Convertible Debentures*	-	(216,360)
Conversion - 2017 Convertible Debentures*	(401)	(2,020)
Conversion - 2020 Convertible Debentures*	(27)	(352)
Redemption - 2013 Convertible Debentures	-	(29,791)
Redemption - 2014 Convertible Debentures	-	(1,297)
Gain on change in fair value (note 19)	(8,962)	(4,696)
Carrying value, end of period	391,060	400,450
Senior Debentures (note 10(b))		
Carrying value, beginning of year	803,341	628,677
Issued - Series F Senior Debentures	-	173,389
Accretion adjustment	198	1,275
Carrying value, end of period	803,539	803,341
	$ 1,194,599	$ 1,203,791

* The conversion amounts above equal $428 (December 31, 2012 - $306,006).

11. Exchangeable units:

Exchangeable units represents the Class B LP units of H&R Portfolio Limited Partnership ("HRLP") issued to participating vendors in exchange for properties acquired by HRLP. The accounts of HRLP are consolidated into the REIT, and thus included in the unaudited condensed combined interim financial statements. The Class B LP units are puttable instruments where the REIT has a contractual obligation to issue Stapled Units to participating vendors upon redemption. These puttable instruments are classified as a liability under IFRS and are measured at fair value through net income (loss) (note 19). Fair value is determined by using the quoted prices for the listed Stapled Units as all of the 5,437,565 (December 31, 2012 - 5,437,565) Class B LP units of HRLP are exchangeable on a one-for-one basis, at the option of the holder, into Stapled Units. The quoted price as at March 31, 2013 was $23.39 (December 31, 2012 - $24.10).

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.

(In thousands of Canadian dollars, except unit and per unit amounts)

11. Exchangeable units (continued):

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

12. Unitholders' equity:

The following number of Stapled Units are issued and outstanding:

As at January 1, 2012	172,553,996
Issued under the Distribution Reinvestment Plan and Unit Purchase Plan (the "DRIP")	568,682
2013 Convertible Debentures converted into Stapled Units	3,244
2014 Convertible Debentures converted into Stapled Units	7,477,779
2017 Convertible Debentures converted into Stapled Units	28,995
Options exercised	134,667
As at March 31, 2012	180,767,363
Issued on November 29, 2012 (at a price of $23.60 per Stapled Unit)	6,360,000
Issued under the DRIP	1,870,186
2013 Convertible Debentures converted into Stapled Units	3,679,524
2014 Convertible Debentures converted into Stapled Units	1,567,770
2017 Convertible Debentures converted into Stapled Units	54,355
2020 Convertible Debentures converted into Stapled Units	13,232
Options exercised	364,132
As at December 31, 2012	194,676,562
Issued under the DRIP	737,833
2017 Convertible Debentures converted into Stapled Units	16,943
2020 Convertible Debentures converted into Stapled Units	1,063
As at March 31, 2013	195,432,401

The weighted average number of basic Stapled Units for the three months ended March 31, 2013 is 194,956,261 (March 31, 2012 - 174,897,911).

(In thousands of Canadian dollars, except unit and per unit amounts)

12. Unitholders' equity (continued):

(a) *Unit option plan:*

As at March 31, 2013, a maximum of 18,000,000 (December 31, 2012 - 18,000,000) Stapled Units were authorized to be issued to the REIT's officers, employees, consultants and certain trustees, of which 11,347,120 options (December 31, 2012 - 9,924,320 options) have been granted. The exercise price of each option approximated the quoted price of the Stapled Units on the date of grant and shall be increased by the amount, if any, by which the fair quoted value of one Finance Trust unit at the time of exercise of such option exceeds the fair quoted value of one Finance Trust unit at the time of grant of such option. The options vest at 33.3% per year from the grant date, will be fully vested after three years, and expire ten years after the date of the grant. During the three months ended March 31, 2013, 1,422,800 options were granted (twelve months ended December 31, 2012 - 1,224,320). The fair value of the vested unit options as at March 31, 2013 is $9,363 (December 31, 2012 - $10,585).

Unit-based compensation expense of ($1,222) for the three months ended March 31, 2013 (March 31, 2012 - $2,237) was included in trust expenses in the condensed combined interim statements of comprehensive income.

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

	March 31, 2013		December 31, 2012	
	Units	Weighted average exercise price	Units	Weighted average exercise price
Outstanding, beginning of year	3,008,021	$ 20.01	2,282,500	$ 17.12
Granted	1,422,800	23.06	1,224,320	23.18
Exercised	-	-	(498,799)	14.57
Outstanding, end of period	4,430,821	$ 20.99	3,008,021	$ 20.01
Options exercisable, end of period	1,641,806	$ 18.30	875,367	$ 16.33

The options outstanding at March 31, 2013 are exercisable at varying prices ranging from $9.30 to $23.18 (December 31, 2012 - $9.30 to $23.18) with a weighted average remaining life of 8.6 years (December 31, 2012 - 8.2 years). The vested options are exercisable at varying prices ranging from $9.30 to $23.18 (December 31, 2012 - $9.30 to $20.83) with a weighted average remaining life of 7.4 years (December 31, 2012 - 7.1 years).

(In thousands of Canadian dollars, except unit and per unit amounts)

12. Unitholders' equity (continued):

(b) *Distributions:*

Under the REIT's Declaration of Trust, the total amount of income of the REIT to be distributed to unitholders for each calendar month shall be subject to the discretion of the trustees, however, the total income distributed shall not be less than the amount necessary to ensure that the REIT will not be liable to pay income tax under Part I of the Tax Act for any year. The trustees have the discretion to pay the distributions in cash or Stapled Units. For the three months ended March 31, 2013, the REIT declared per unit distributions of $0.32 (March 31, 2012 - $0.25).

Pursuant to Finance Trust's Declaration of Trust, unitholders of Finance Trust are entitled to receive all of the Distributable Cash of Finance Trust, as defined in the Declaration of Trust. Distributable Cash means, subject to certain exceptions, all amounts received by Finance Trust less certain costs, expenses or other amounts payable by Finance Trust, and less any amounts which, in the opinion of the trustees, may reasonably be considered to be necessary to provide for the payment of any costs or expenditures that have been or will be incurred in the activities and operations of Finance Trust and to provide for payment of any tax liability of Finance Trust. Finance Trust paid per unit distributions of $0.02 for the three months ended March 31, 2013 (March 31, 2012 - $0.02).

The details of the distributions are as follows:

	Three months ended March 31	
	2013	2012
Cash distributions to unitholders	$ 31,662	$ 35,074
Distributions payable (note 15)	17,516	-
Unit distributions (issued under the DRIP)	16,620	12,928
	$ 65,798	$ 48,002

(c) *Short form base shelf prospectus:*

On March 19, 2013, the REIT and Finance Trust issued a preliminary short form base shelf prospectus, which was finalized on April 3, 2013, allowing the REIT and Finance Trust to offer and issue Stapled Units and the REIT to offer and issue the following securities: (i) preferred units; (ii) unsecured debt securities; (iii) subscription receipts exchangeable for Stapled Units and/or other securities of the REIT; (iv) warrants exercisable to acquire Stapled Units and/or other securities of the REIT; and (v) securities comprised of more than one of Stapled Units, preferred units, debt securities, subscription receipts and/or warrants offered together as a unit, or any combination thereof having an offer price of up to $2,000,000 in aggregate (or the equivalent thereof, at the date of issue, in any other currency or currencies, as the case may be) at any time during the 25-month period that the short form base shelf prospectus (including any amendments) remains valid. As at March 31, 2013, no securities have been issued under the short form base shelf prospectus.

(In thousands of Canadian dollars, except unit and per unit amounts)

13. Derivative instruments:

		Fair value (liability) asset **		Net gain (loss) on derivative contracts*	
		March 31	December 31	Three months ended March 31	
	`	2013	2012	2013	2012
Foreign exchange forward contracts	(a)	$ 1,066	$ 1,679	$ (658)	$ 1,480
Foreign exchange swap	(a)	-	-	-	(1,273)
Foreign exchange swap	(a)	-	-	-	1,106
Interest rate swap - the Bow Facility	(b)	-	-	-	1,250
Mortgage interest rate swaps	(c)	(555)	(601)	64	23
		$ 511	$ 1,078	$ (594)	$ 2,586

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

(b) The REIT entered into an interest rate swap that was intended to limit its interest rate exposure during the term of the Bow Facility (note 14(b)). The swap was settled in June 2012.

(c) The REIT entered into interest rate swaps on three Canadian mortgages and one U.S. mortgage. The three interest rate swaps on the Canadian mortgages were settled during 2012.

* Excludes amounts relating to foreign exchange which have been recorded in accumulated other comprehensive income (loss) (note 16).

** 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 7).

14. Bank indebtedness:

The REIT has the following facilities:

(a) A general operating facility which is secured by fixed charges over certain investment properties due on December 31, 2013. The total facility as at March 31, 2013 is $300,000 (December 31, 2012 - $300,000) and can be drawn in either Canadian or U.S. dollars (to a maximum of $150,000 U.S. dollars for U.S. borrowings). The amount available at March 31, 2013, after taking into account the bank indebtedness drawn of $23,888 (December 31, 2012 - $2,905) and the outstanding letters of credit and other items, is $222,303 (December 31, 2012 - $252,523). The Canadian dollar bank indebtedness bears interest at rates approximating the prime rate of a Canadian chartered bank. At March 31, 2013, the Canadian prime interest rate was 3.00% (December 31, 2012 - 3.00%) per annum.

Included in bank indebtedness at March 31, 2013 are U.S. dollar denominated amounts of $18,260 (December 31, 2012 - U.S. $298). The Canadian equivalents of these amounts are $18,625 (December 31, 2012 - $295).

(In thousands of Canadian dollars, except unit and per unit amounts)

14. Bank indebtedness (continued):

(b) A general operating facility which is secured by The Bow (the "Bow Facility") due on November 21, 2013. The total facility as at March 31, 2013 is $300,000 (December 31, 2012 - $300,000) and can be drawn in either Canadian or U.S. dollars (to a maximum of $150,000 U.S. dollars). As at March 31, 2013, the REIT has drawn nil (December 31, 2012 - nil) under the Bow Facility and the undrawn amount available at March 31, 2013 is $300,000 December 31, 2012 - $300,000).

15. Accounts payable and accrued liabilities:

	March 31 2013	December 31 2012
Current:		
Other accounts payable and accrued liabilities	$ 77,470	$ 71,697
Distributions payable (note 12(b))	17,516	-
Accounts payable relating to the Bow	21,292	30,974
Debenture interest payable	11,818	14,139
Prepaid rent	42,719	27,220
Mortgage interest payable	18,566	12,302
Non-current:		
Security deposits	3,525	3,759
	$ 192,906	$ 160,091

16. Accumulated other comprehensive income (loss):

	Cash flow hedges	Foreign operations	Total
Balance as at January 1, 2012	$ (1,582)	$ (8,290)	$ (9,872)
Transfer of realized loss on cash flow hedges to net income	99	-	99
Unrealized loss on translation of U.S. denominated foreign operation	-	(3,331)	(3,331)
Balance as at March 31, 2012	(1,483)	(11,621)	(13,104)
Transfer of realized loss on cash flow hedges to net income	301	-	301
Unrealized loss on translation of U.S. denominated foreign operation	-	(12,068)	(12,068)
Balance as at December 31, 2012	(1,182)	(23,689)	(24,871)
Transfer of realized loss on cash flow hedges to net income	102	-	102
Unrealized gain on translation of U.S. denominated foreign operation	-	23,019	23,019
Balance as at March 31, 2013	$ (1,080)	$ (670)	$ (1,750)

(In thousands of Canadian dollars, except unit and per unit amounts)

17. Rentals from investment properties:

	Three months ended March 31 2013	2012
Rentals from investment properties	$ 201,083	$ 182,780
Straight-lining of contractual rent	21,909	557
Rent amortization of tenant inducements	(364)	(366)
	$ 222,628	$ 182,971

18. Finance cost - operations:

	Three months ended March 31 2013	2012
Contractual interest on mortgages payable	$ 48,814	$ 46,699
Contractual interest on debentures payable	14,705	16,254
Interest on construction loans	144	1,228
Effective interest rate accretion	296	67
Bank interest and charges	729	2,202
Exchangeable unit distributions	1,835	1,495
	66,523	67,945
Capitalized interest*	(532)	(16,652)
	$ 65,991	$ 51,293

* The capitalized interest is determined using the REIT's weighted average rate of borrowing on all financial liabilities of 5.17% (March 31, 2012 - 5.57%).

19. Gain (loss) on change in fair value:

	Three months ended March 31 2013	2012
Gain on fair value of convertible debentures (note 10)	$ 8,962	$ 4,014
Gain (loss) on fair value of exchangeable units (note 11)	3,860	(1,958)
Net gain (loss) on derivative instruments (note 13)	(594)	2,586
	$ 12,228	$ 4,642

(In thousands of Canadian dollars, except unit and per unit amounts)

20. Supplemental cash flow information:

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

	Three months ended March 31 2013	Three months ended March 31 2012
Straight-lining of contractual rent	$ (24,478)	$ (123)
Prepaid expenses and sundry assets	(6,846)	2,670
Accounts receivable	(170)	3,774
Accounts payable and accrued liabilities	22,859	12,244
	$ (8,635)	$ 18,565

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

	Three months ended March 31 2013	Three months ended March 31 2012
Non-cash distributions to unitholders (note 12(b))	$ 16,620	$ 12,928
Non-cash conversion of convertible debentures (note 10)	428	178,025
Increase (decrease) in accounts payable for the Bow	(8,705)	1,447
Capitalized interest (note 18)	532	16,652
Non-cash proceeds on options exercised	-	707
Mortgages receivable from the sale of investment properties	16,188	-

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

During the three months ended March 31, 2013, the REIT recorded fees pursuant to this agreement of $3,772 (March 31, 2012 - $5,020), of which $153 (March 31, 2012 - $1,310) was capitalized to the cost of the investment properties acquired, nil (March 31, 2012 - $365) was capitalized to properties under development and $1,580 (March 31, 2012 - $271) was capitalized to leasing expenses. These amounts include amounts relating to investments in joint ventures. The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the three months ended March 31, 2013, the Property Manager has waived the incentive fee. For the three months ended March 31, 2012, a further amount of $1,125 was earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager.

Pursuant to the above agreement, as at March 31, 2013, $431 (December 31, 2012 - $1,837) was payable to the Property Manager.

The REIT leases space to companies affiliated with the Property Manager. The rental income earned for the three months ended March 31, 2013 is $360 (March 31, 2012 - $352).

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

(In thousands of Canadian dollars, except unit and per unit amounts)

22. Segmented disclosures:

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

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

	March 31 2013	December 31 2012
Canada	$ 7,810,650	$ 7,774,143
United States	2,262,650	2,188,939
	10,073,300	9,963,082
Less: investment properties relating to investments in joint ventures	(573,250)	(571,500)
Less: investment properties relating to assets held for sale	(25,000)	(27,800)
	$ 9,475,050	$ 9,363,782

	Three months ended March 31	
	2013	2012
Rentals from investment properties:		
Canada	$ 185,292	$ 134,994
United States	51,245	51,292
	236,537	186,286
Less: rentals relating to investments in joint ventures	(13,909)	(3,315)
	$ 222,628	$ 182,971

23. Income tax expense:

	Three months ended March 31	
	2013	2012
Income tax expense included in the determination of net income:		
Current	$ 155	$ 187
Deferred	7,293	1,734
	$ 7,448	$ 1,921

(In thousands of Canadian dollars, except unit and per unit amounts)

23. Income tax expense (continued):

A reconciliation of expected income taxes based upon the 2013 and 2012 statutory rates to the recorded income tax expense is as follows:

	Three months ended March 31	
	2013	2012
Income tax computed at the Canadian statutory rate of nil applicable to the REIT for 2013 and 2012	$ -	$ -
U.S. income taxes	155	187
Deferred income taxes applicable to U.S. Holdco	7,293	1,734
	$ 7,448	$ 1,921

The Tax Act contains legislation (the "SIFT Rules") affecting the tax treatment of "specified investment flow-through" ("SIFT") trusts. A SIFT includes a publicly-traded trust. Under the SIFT Rules, distributions of certain income by a SIFT are not deductible in computing the SIFT's taxable income, and a SIFT is subject to tax on such income at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. The SIFT Rules do not apply to a publicly-traded trust that qualifies as a real estate investment trust under the Tax Act. The REIT completed the necessary tax restructuring to qualify as a real estate investment trust effective June 30, 2010.

The REIT has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	March 31 2013	December 31 2012
Deferred tax assets:		
Net operating losses and deferred interest deductions	$ 74,731	$ 72,090
Accounts payable and accrued liabilities	2,088	1,129
Other assets	152	148
	76,971	73,367
Deferred tax liabilities:		
Investment properties	128,862	116,360
Derivative instruments	196	414
	129,058	116,774
Deferred tax liability	$ (52,087)	$ (43,407)

At March 31, 2013, U.S. Holdco had accumulated net operating losses and deferred interest deductions available for carryforward for U.S. income tax purposes of $194,612 (December 31, 2012 - $187,733). The net operating losses will expire between 2018 and 2032. The deferred interest deductions and the deductible temporary differences do not generally expire under current tax legislation.

(In thousands of Canadian dollars, except unit and per unit amounts)

24. Assets and liabilities carried at fair value:

Financial instruments measured at fair value in the statement of financial position are categorized using a fair value hierarchy that reflects the significance of the inputs used in determining the fair values.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

March 31, 2013	Level 1	Level 2	Level 3	Total
Assets				
Investment properties	$ -	$ 9,345,843	$ -	$ 9,345,843
Properties under development	-	129,217	-	129,217
Investment properties held for sale (note 6)	-	25,000	-	25,000
Derivative instrument asset (note 7)	-	1,066	-	1,066
	-	9,501,126	-	9,501,126
Liabilities				
Convertible debentures (note 10)	(391,060)	-	-	(391,060)
Exchangeable units	(127,185)	-	-	(127,185)
Derivative instruments liabilities	-	(555)	-	(555)
	(518,245)	(555)	-	(518,800)
	$ (518,245)	$ 9,500,571	$ -	$ 8,982,326

December 31, 2012	Level 1	Level 2	Level 3	Total
Assets				
Investment properties	$ -	$ 9,235,562	$ -	$ 9,235,562
Properties under development	-	128,220	-	128,220
Investment properties held for sale (note 6)	-	27,800	-	27,800
Derivative instrument asset (note 7)	-	1,679	-	1,679
	-	9,393,261	-	9,393,261
Liabilities				
Convertible debentures (note 10)	(400,450)	-	-	(400,450)
Exchangeable units	(131,045)	-	-	(131,045)
Derivative instruments liabilities	-	(601)	-	(601)
	(531,495)	(601)	-	(532,096)
	$ (531,495)	$ 9,392,660	$ -	$ 8,861,165

25. Commitments and contingencies:

(a) In the normal course of operations, the REIT has issued letters of credit in connection with developments, financings, operations and acquisitions. As at March 31, 2013, the REIT has outstanding letters of credit totalling $59,435 (December 31, 2012 - $50,198), including $17,421 (December 31, 2012 - $17,343) which has been pledged as security for certain mortgages payable. Of these letters of credit, $53,784 (December 31, 2012 - $44,547), are secured in the same manner as the bank indebtedness (note 14(a)) and $5,651 (December 31, 2012 - $5,651) by a specific investment property.

(b) The REIT provides guarantees on behalf of third parties, including co-owners. As at March 31, 2013, the REIT issued guarantees amounting to $71,521 (December 31, 2012 - $72,091), which expire in 2016 (December 31, 2012 - expire in 2016), relating to the co-owner's share of mortgage liability. In addition, the REIT continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable until such debts are extinguished or the lenders agree to release the REIT's covenants. At March 31, 2013, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is $109,486 (December 31, 2012 - $110,292) which expires between 2013 and 2018 (December 31, 2012 - expires between 2013 and 2018). There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in these unaudited condensed combined interim financial statements.

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.

(c) 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.

26. Subsequent events:

(a) On April 4, 2013, pursuant to a statutory plan of arrangement, the REIT completed the acquisition of 27 properties from Primaris Retail Real Estate Investment Trust ("Primaris") with a fair value of approximately $3,100,000, and assumed indebtedness of approximately $1,400,000 of which $339,012 was subsequently repaid. Further, the REIT and Finance Trust issued approximately 62,535,000 Stapled Units for delivery to certain Primaris unitholders, and the REIT assumed the 6.75% convertible debentures (the "6.75% Debentures") (remaining aggregate principal amount outstanding $1,220, as of April 4, 2013), 6.30% convertible debentures (the "6.30% Debentures") (remaining aggregate principal amount outstanding $7,726, as of April 4, 2013) and 5.40% convertible debentures (the "5.40% Debentures") (remaining aggregate principal amount outstanding $74,963, as of April 4, 2013) issued by Primaris. On April 8, 2013, the REIT issued notices of intent to redeem all the remaining 6.75% Debentures on May 27, 2013 and 6.30% Debentures on May 13, 2013 in accordance with their terms. In connection with the Primaris transaction, holders of approximately 2.1 million exchangeable units of certain subsidiaries of Primaris now hold an equal number of exchangeable units of certain subsidiaries of the REIT each of which is exchangeable for 1.166 Stapled Units.

(b) In April 2013, the REIT sold 1235 Bay St., an office property in Toronto, ON for gross proceeds of approximately $25,000.

(c) In May 2013, the REIT repaid two U.S. mortgages totalling approximately U.S. $22,847 bearing interest at an average rate of 5.95%.

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

For the Three months ended March 31, 2013

Dated: May 13, 2013

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SECTION I

BASIS OF PRESENTATION

Financial data included in this Management's Discussion and Analysis ("MD&A") of combined results of operations and combined financial position of H&R Real Estate Investment Trust (the "REIT") and H&R Finance Trust ("Finance Trust" and together with the REIT, the "Trusts") for the three months ended March 31, 2013 includes material information up to May 13, 2013. Financial data provided has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A should be read in conjunction with the unaudited condensed combined interim financial statements of the REIT and Finance Trust and appended notes for the three months ended March 31, 2013, together with the combined financial statements and appended notes and MD&A for the year ended December 31, 2012. 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", Risks and Uncertainties" and "Subsequent Events" 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. 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; interest and other debt-related risk; construction risks; lease rollover risk; currency risk; environmental risk; unit price risk; availability of cash for distributions; ability to access capital markets; tax risk; dilution; unitholder liability; redemption right risk 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 May 13, 2013 and the Trusts, except as required by applicable law, assume no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances.

NON-GAAP FINANCIAL MEASURES

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

OVERVIEW

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

Finance Trust is an unincorporated investment trust. Finance Trust was established pursuant to a Plan of Arrangement (the "Plan of Arrangement") on October 1, 2008, as described in the REIT's information circular dated August 20, 2008, as an open-ended limited purpose unit trust pursuant to its declaration of Trust (the "Finance Trust 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 assets; 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 investment properties in Canada and the United States occupied by creditworthy tenants on a long-term basis. The REIT does not have any specific allocation targets as to property type, but rather focuses on creditworthy tenants with long-term leases.

The primary purpose of Finance Trust is to be a flow-through vehicle to allow the REIT to indirectly access the capital markets in a tax-efficient manner by indirectly borrowing money from the REIT's unitholders. Finance Trust's primary activity is to hold debt issued by H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco"), a wholly owned U.S. subsidiary of the REIT. As at March 31, 2013, Finance Trust holds U.S. $163.2 million of aggregate principal amount of notes payable by U.S. Holdco ("U.S. Holdco Notes"). Subject to cash flow requirements, Finance Trust intends to distribute to its unitholders, who are also unitholders of the REIT, all of its cash flow, consisting primarily of interest paid by U.S. Holdco, less administrative and other expenses and amounts to satisfy liabilities.

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

Pursuant to the provisions of the Declarations of Trust for Finance Trust and the REIT at all times each REIT unit must be ''stapled'' to a Finance Trust unit (and each Finance Trust unit must be ''stapled'' to a REIT unit) unless there is an "event of uncoupling" (as described below). As part of the Plan of Arrangement, the REIT and Finance Trust entered into a support agreement (the "Support Agreement") which provided, among other things, for the co-ordination of the declaration and payment of all distributions so as to provide for simultaneous record dates and payment dates; for co-ordination so as to permit the REIT to perform its obligations pursuant to the REIT's Declaration of Trust, Unit Option Plan, Distribution Reinvestment Plan and Unit Purchase Plan ("DRIP") and

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

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

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

Investment Restrictions

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

(a) U.S. Holdco Notes; and

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

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

FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars except per unit amounts)	March 31, 2013	December 31, 2012
Total assets	$9,968,418	$9,873,050
Debt to total assets per the combined financial statements[(1)]	49.5%	50.3%
Debt to total assets per the combined financial statements excluding convertible debentures[(1)]	46.0%	46.9%
Stapled Units outstanding	195,432	194,677
Exchangeable units of H&R Limited Partnership outstanding	5,438	5,438

	Three months ended March 31, 2013	Three months ended March 31, 2012
Property rental revenue	$222,628	$182,971
Property operating income	151,040	123,226
Net income from investments in joint ventures	6,523	8,223
FFO[(1)]	89,988	72,352
Weighted average number of basic Stapled Units for FFO	200,394	180,336
FFO per basic Stapled Unit[(1)]	0.45	0.40
Distributions paid per Stapled Unit	0.34	0.27
Payout ratio per Stapled Unit as a % of FFO[(1)]	75.6%	67.5%

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

(1) These are non-GAAP measures.

KEY PERFORMANCE DRIVERS

OPERATIONS	3 months ended March 31	Office	Industrial	Retail	Total*
Occupancy as at March 31[(1)]	2013	98.6%	99.1%	99.1%	99.0%
	2012	99.0%	98.9%	99.8%	99.1%
Occupancy – same asset as at March 31[(1)(2)]	2013	98.4%	99.1%	99.9%	99.1%
	2012	99.3%	98.9%	99.8%	99.2%
Average contractual rent per square foot for the three months ended March 31[(3)]	2013	$25.77	$5.36	$13.65	$13.32
	2012	$22.70	$5.80	$13.65	$11.91

	March 31, 2013	December 31, 2012
Average remaining term to maturity of leases (in years) [(1)]	11.9	12.3
Average remaining term to maturity of mortgages payable (in years) [(1)]	7.5	7.7

* Weighted average total.
(1) Includes investments in joint ventures.
(2) Same asset refers to those properties owned by the REIT for the 15-month period ended March 31, 2013.
(3) This does not include assets held for sale or properties sold during the 15-month period ended March 31, 2013.

PORTFOLIO OVERVIEW

The geographic diversification of the REIT's portfolio as at March 31, 2013 is outlined in the charts below:

NUMBER OF PROPERTIES	Ontario	United States	Alberta	Quebec	Other	Total
Office	24	7	5	1	4	41
Industrial	45	17	19	12	19	112
Retail	33	92	5	5	3	138
Total	102	116	29	18	26	291

Square Feet (in thousands)*	Ontario	United States	Alberta	Quebec	Other	Total
Office	7,153	2,024	3,430	452	884	13,943
Industrial	8,631	6,364	2,810	2,978	1,268	22,051
Retail	1,937	5,156	515	498	524	8,630
Total	17,721	13,544	6,755	3,928	2,676	44,624

* Square feet (in thousands) is based on the REIT's pro-rata ownership share of net leasable area.

LEASE TO MATURITY PROFILE(1)

	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
2013	0.6	20.51	0.9	6.75	0.2	19.70	1.7	13.13
2014	1.5	19.71	0.7	6.62	0.3	26.78	2.5	16.89
2015	0.7	26.97	1.8	6.17	0.4	28.03	2.9	14.21
2016	1.9	21.06	4.2	3.95	0.3	20.52	6.4	9.81
2017	0.9	20.00	0.4	5.63	1.3	10.20	2.6	12.89
	5.6	21.21	8.0	5.08	2.5	17.04	16.1	12.55

(1) Includes the REIT's pro rata share of investments in joint ventures.

TOP TWENTY SOURCES OF REVENUE BY TENANT[1]

	Tenant	% of rentals from investment properties[2]	Number of locations	REIT owned sq.ft. (in 000's)	Average lease term to maturity (in years) [3]
1.	Encana Corporation	14.3	2	2,041	25.0
2.	Bell Canada	6.4	4	1,734	12.6
3.	Hess Corporation	5.1	1	845	[5]
4.	TransCanada Pipelines Limited	5.0	2	950	8.0
5.	Telus Communications	3.9	2	943	9.5
6.	Bell Mobility	3.8	2	775	12.7
7.	New York City Department of Health	3.3	1	670	17.7
8.	Bank of Nova Scotia	2.8	2	405	12.7
9.	Rona Inc.	2.7	15	2,406	6.8
10.	Canadian Tire Corp.	2.2	4	2,189	13.3
11.	Royal Bank of Canada	2.2	3	494	6.3
12.	Corus Entertainment Inc.	2.1	1	472	18.9
13.	Canadian Imperial Bank of Commerce	2.0	7	526	10.7
14.	Ontario Realty Corporation and other Ontario Agencies[4]	1.5	2	360	4.0
15.	Versacold Logistics Canada Inc.	1.5	12	1,733	19.4
16.	Shell Oil Products	1.2	18	249	9.3
17.	Nestle Canada Inc.	1.2	1	170	6.4
18.	Public Works of Canada	1.2	3	300	3.9
19.	Purolator Courier	1.2	12	1,071	9.2
20.	Finning International	1.1	15	881	9.0
	Total	64.7%	109	19,214	

(1) Includes the REIT's pro rata share of investments in joint ventures.

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

(3) Average lease term to maturity is based on net rent.

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

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

SUMMARY OF SIGNIFICANT Q1 2013 ACTIVITY AND OUTLOOK

During the first quarter of 2013, the REIT sold three Canadian industrial properties and one Canadian office property totalling 427,029 square feet for gross proceeds of approximately $37.5 million. The REIT repaid one Canadian mortgage totalling $69.5 million bearing interest at a rate of 8.16%. In addition, in Q3 2013 the REIT intends to redeem the 6.00% 2017 convertible debentures. As these convertible debentures are currently in the money, the REIT expects the holders to convert them into equity thereby improving the REIT's overall leverage ratios.

Primaris Acquisition:

On April 4, 2013, pursuant to a statutory plan of arrangement, the REIT completed the acquisition of 27 properties from Primaris Retail Real Estate Investment Trust ("Primaris") with a fair value of approximately $3.1 billion, and assumed indebtedness of approximately $1.4 billion of which $339.0 million was subsequently repaid. Further, the REIT and Finance Trust issued approximately 62.5 million Stapled Units for delivery to certain Primaris unitholders, and the REIT assumed the 6.75% convertible debentures (the "6.75% Debentures") (remaining aggregate principal amount outstanding is approximately $1.2 million, as of April 4, 2013), 6.30% convertible debentures (the "6.30% Debentures") (remaining aggregate principal amount outstanding is approximately $7.7 million, as of April 4, 2013) and 5.40% convertible debentures (the "5.40% Debentures") (remaining aggregate principal amount outstanding is approximately $75.0 million, as of April 4, 2013) issued by Primaris. On April 8, 2013, the REIT issued notices of intent to redeem all the remaining 6.75% Debentures on May 27, 2013 and 6.30% Debentures on May 13, 2013 in accordance with their terms. In connection with the Primaris transaction, holders of approximately 2.1 million exchangeable units of certain subsidiaries of Primaris now hold an equal number of exchangeable units of certain subsidiaries of the REIT each of which is exchangeable for 1.166 Stapled Units.

The increased market capitalization relating to the acquisition of Primaris of approximately $1.6 billion will substantially enhance liquidity for unitholders. Through this transaction, the REIT will achieve broader diversification by geographic region, asset class and tenant base. The REIT is thrilled to be able to diversify into the enclosed shopping centre asset class at a time when U.S. and international retailers are expanding into Canada. Target, the chain retail store, will be opening in 8 locations of the acquired enclosed shopping centres during 2013 which should lead to higher traffic, sales and rents in these centres.

The Bow

Effective December 31, 2012, the REIT reached practical completion on the construction of a two million square foot office building in Calgary, Alberta (the "Bow"), which is fully leased to Encana Corporation for a 25-year term. On March 15, 2013, the final floors were delivered to Encana Corporation and the 25-year lease term will mature on May 14, 2038. Rent escalations will be at 0.75% per annum on the office space and 1.5% per annum on the parking income for the full 25-year term. The REIT estimates a further $36.0 million in costs will be incurred to complete this project. As at March 31, 2013, the total cost incurred on the project, including the South Block, amounted to $1.68 billion (December 31, 2012 - $1.67 billion) which includes the costs for construction of 1,358 underground parking stalls. Encana Corporation was entitled to a 60-day free rent fixturing period and a rent credit equal to the delay penalty of approximately $32.0 million. As at March 31, 2013, this rent credit has been fully utilized by the tenant. This rent free period, combined with the interest expense that was capitalized, resulted in an AFFO loss of $1.7 million in Q1 2013 as shown in the table below. The table below also provides an estimate of FFO and AFFO for the next two quarters in 2013.

	Actual	Estimate[(1)(2)]	
In Millions	Q1 2013	Q2 2013	Q3 2013
Basic rent	$2.2	$21.9	$23.3
Straight-lining of contractual rent	20.6	3.0	1.9
Interest capitalized	0.5	-	-
Mortgage interest	(4.4)	(4.6)	(4.6)
Expected Bow impact on FFO	18.9	20.3	20.6
Expected Bow impact on AFFO	(1.7)	17.3	18.7

(1) This information is being provided so that investors are able to understand the expected impact of the Bow to the REIT's operations. This information may not be appropriate for other purposes.

(2) The estimates for Q2 and Q3 2013 supersede the estimates previously provided by the REIT.

SECTION II

SELECTED ANNUAL INFORMATION

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

(in thousands of Canadian dollars except per unit amounts)	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010[(1)]
Rentals from investment properties	$799,159	$643,606	$617,427
Finance income	1,854	1,036	2,589
Net income	508,860	338,043	496,600
Comprehensive income	493,861	344,066	490,438
Total assets	9,873,050	8,929,340	5,998,640
Mortgages payable	3,813,613	3,092,618	2,706,707
Debentures payable	1,203,791	1,370,917	965,828
Cash distributions per unit	$1.18	$0.98	$0.79

(1) The 2010 figures have not been adjusted for the 2013 and 2012 changes in accounting policies. See "Changes in Accounting Policies" below.

For a discussion of the changes between the periods noted above, please see the 2012 and 2011 MD&A of the REIT.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2013, the Trusts adopted the new suite of consolidation standards, which are made up of IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Interests in Other Entities*. Refer to the March 31, 2013 unaudited condensed combined interim financial statements of the Trusts for a detailed description and quantitative restatement of all changes described below.

DISCUSSION OF OPERATIONS

(in thousands of Canadian dollars)	Three months ended March 31 2013 Amounts per financial statements	2013 Investments in joint ventures	2013 Total	2012 Amounts per financial statements	2012 Investments in joint ventures	2012 Total
Property operating income:						
Rentals from investment properties	$222,628	$13,909	$236,537	$182,971	$3,315	$186,286
Property operating costs	(71,588)	(6,198)	(77,786)	(59,745)	(1,344)	(61,089)
	151,040	7,711	158,751	123,226	1,971	125,197
Net income from investments in joint ventures	6,523	(6,523)	-	8,223	(8,223)	-
Finance costs:						
Finance income	745	11	756	624	-	624
Finance cost – operations	(65,991)	(2,537)	(68,528)	(51,293)	(771)	(52,064)
Gain on change in fair value	12,228	-	12,228	4,642	-	4,642
	(53,018)	(2,526)	(55,544)	(46,027)	(771)	(46,798)
Amortization of leasing expenses	(1,576)	-	(1,576)	(1,613)	-	(1,613)
Trust expenses	(862)	-	(862)	(4,172)	-	(4,172)
Fair value adjustment on real estate assets	38,556	1,338	39,894	126,950	7,023	133,973
Loss on sale of real estate assets	(1,820)	-	(1,820)	-	-	-
Net gain (loss) on foreign exchange	4,876	-	4,876	(5,340)	-	(5,340)
Transaction costs on business combination	(4,162)	-	(4,162)	-	-	-
Net income before income taxes	139,557	-	139,557	201,247	-	201,247
Income tax expense	(7,448)	-	(7,448)	(1,921)	-	(1,921)
Net income	132,109		132,109	199,326	-	199,326
Other comprehensive income (loss):						
Unrealized gain (loss) on translation of U.S. denominated foreign operations	23,019	-	23,019	(3,331)	-	(3,331)
Transfer of realized loss on cash flow hedges to net income	102	-	102	99	-	99
	23,121	-	23,121	(3,232)	-	(3,232)
Total comprehensive income all attributable to unitholders	$155,230	-	$155,230	$196,094	-	$196,094

The decrease in net income for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012 is primarily due to the lower fair value adjustment on real estate assets and higher transaction costs on business combinations offset by property operating income increasing due to acquisitions over the last 15 months.

Rentals from Investment Properties

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

Rentals from Investment Properties	Three months ended March 31		
(in thousands of Canadian dollars)	2013	2012	Change
Same-asset - current rentals	$177,847	$176,624	$1,223
Same-asset - straight-lining of contractual rent	750	422	328
Same-asset - rent amortization of tenant inducements	(364)	(366)	2
Acquisitions - current rentals, rent amortization of tenant inducements	7,834	1,221	6,613
Acquisitions - straight-lining of contractual rent	535	118	417
Assets held for sale and properties sold	1,614	4,952	(3,338)
The Bow - current rentals	13,771	-	13,771
The Bow - straight-lining of contractual rent	20,641	-	20,641
Total rentals	$222,628	$182,971	$39,657

Rentals from acquisitions including current rentals, rent amortization and straight-lining of contractual rent increased by $7.0 million in Q1 2013 as compared to Q1 2012. The increase was due to the 11 properties acquired in 2012. Refer to the December 31, 2012 MD&A for details on the list of properties.

Rentals from assets held for sale and properties sold decreased by $3.3 million in Q1 2013 as compared to Q1 2012. The decrease was due to the sale of seven properties in 2012 and four in 2013. Refer to page 15 of the MD&A for further details.

Rentals from the Bow, including straight-lining of contractual rent, increased by $34.4 million in Q1 2013 as compared to Q1 2012. The increase was due to the delivery of tranches to Encana Corporation beginning in May 2012, with the final tranche delivered on March 15, 2013. Refer to page 7 of the MD&A for a further update on the Bow.

Property Operating Costs

For Q1 2013, realty taxes, maintenance, utilities and property management fees represented 49.8%, 30.2%, 12.3% and 2.6%, respectively, of total property operating costs (Q1 2012 - 52.0%, 25.4%, 11.7% and 7.1%). 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 March 31		
(in thousands of Canadian dollars)	2013	2012	Change
Same-asset property operating costs	$55,972	$57,959	($1,987)
Acquisitions	3,290	454	2,836
Assets held for sale and properties sold	800	1,332	(532)
The Bow	11,526	-	11,526
Total property operating costs	$71,588	$59,745	$11,843

Same-Asset Property Operating Income	Three months ended March 31		
(in thousands of Canadian dollars)	2013	2012	Change
Same-asset current rentals and straight-lining of contractual rent	$178,597	$177,046	$1,551
Same-asset - property operating costs	(55,972)	(57,959)	(1,987)
Total same-asset - property operating income	122,625	119,087	3,538
Total same-asset - property operating income excluding straight-lining of contractual rent	$121,875	$118,665	$3,210

Included in same-asset property operating income are the following items which although they occur regularly, can be a source of significant variances between different periods:

	Three months ended March 31		
(in thousands of Canadian dollars)	2013	2012	Change
Additional recoveries net of capital expenditures	$1,866	$823	$1,043
Sundry income	8	206	(198)
Effect on same-asset - property operating income	$1,874	$1,029	$845

Additional recoveries for capital expenditures vary from period to period as many of the REIT's properties are single-tenant buildings with triple net leases, which allows for certain items to be recovered from tenants even if the cost of the work is capitalized to investment properties. Sundry income typically includes one-time, non-recurring items.

Net Income from Investments in Joint Ventures	Three months ended March 31		
(in thousands of Canadian dollars)	2013	2012	Change
Rentals from investment properties	$13,909	$3,315	$10,594
Property operating costs	(6,198)	(1,344)	(4,854)
Finance income	11	-	11
Finance costs - operations	(2,537)	(771)	(1,766)
Fair value adjustment on real estate assets	1,338	7,023	(5,685)
Net income from investments in joint ventures	$6,523	$8,223	($1,700)

Net income from investments in joint ventures decreased by $1.7 million in Q1 2013 as compared to Q1 2012 due to a lower fair value adjustment on real estate assets and higher finance costs due to the REIT issuing first mortgage bonds for the acquisition of Scotia Plaza. This decrease was partially offset by higher property operating income as a result of this acquisition.

Finance Cost - Operations	Three months ended March 31		
(in thousands of Canadian dollars)	2013	2012	Change
Contractual interest on mortgages payable	$48,814	$46,699	$2,115
Contractual interest on debentures payable	14,705	16,254	(1,549)
Interest on construction loans	144	1,228	(1,084)
Effective interest rate accretion	296	67	229
Bank interest and charges	729	2,202	(1,473)
Exchangeable unit distributions	1,835	1,495	340
	66,523	67,945	(1,422)
Capitalized interest	(532)	(16,652)	16,120
Finance cost - operations	$65,991	$51,293	$14,698

The increase in contractual interest on mortgages payable for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 is primarily due to new mortgages assumed or secured on acquisitions during 2012, offset by mortgages paid off upon maturity, mortgages released as part of a sale of investment property as well as mortgages refinanced at lower interest rates.

The decrease in contractual interest on debentures payable for the three months ended March 31, 2013 of $1.5 million compared to the three months ended March 31, 2012 is mainly due to the following: (i) a decrease of $3.3 million resulting from the conversion and redemption of all the 2013 and 2014 convertible debentures into Stapled Units; and (ii) an increase of $1.9 million resulting from the REIT issuing $175 million of senior debentures in April 2012.

The amount of capitalized interest decreased for the three months ended March 31, 2013 as compared to the respective 2012 period as the development of the Bow was substantially completed and delivered to Encana Corporation in tranches throughout 2012 and Q1 2013. As a tranche was completed, interest was no longer capitalized on that particular tranche.

Finance Cost – Gain on Change in Fair Value	Three months ended March 31		
(in thousands of Canadian dollars)	2013	2012	Change
Gain on fair value of convertible debentures	$8,962	$4,014	$4,948
Gain (loss) on fair value of exchangeable units	3,860	(1,958)	5,818
Net gain (loss) on derivative instruments	(594)	2,586	(3,180)
Finance cost – gain on change in fair value	$12,228	$4,642	$7,586

The REIT has elected to measure the outstanding convertible debentures at fair value. The REIT uses the quoted prices to determine the fair value of each series of convertible debentures as permitted under IFRS 13, *Fair Value Measurement.* The fluctuation in fair value between each period is recorded as a gain (loss) in changes in fair values in comprehensive income.

Under IFRS, the exchangeable units are considered puttable instruments which are valued and classified as a financial liability. The gain (loss) on fair value of exchangeable units is due to the change in the exchangeable unit fair value during the respective quarter. At the end of each quarter, the fair value of each exchangeable unit is measured based on the quoted prices of the Stapled Units. The quoted price of Stapled Units was $23.39 as at March 31, 2013 (December 31, 2012 - $24.10). The quoted price of Stapled Units was $23.66 as at March 31, 2012 (December 31, 2011 - $23.30).

Refer to the "Derivative Instruments" table under "Liabilities" for a financial summary of all derivative instruments held by the REIT.

Trust Expenses

(in thousands of Canadian dollars)	Three months ended March 31 2013	2012	Change
Unit-based compensation	($1,222)	$2,237	($3,459)
Other expenses	2,084	1,935	149
Trust expenses	$862	$4,172	($3,310)

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 as defined by IFRS 2. The impact of the fair value adjustment to unit-based compensation is as follows:

Unit-based Compensation

(in thousands of Canadian dollars)	Three months ended March 31 2013	2012	Change
Unit-based compensation	$587	$778	($191)
Fair value adjustment to unit-based compensation	(1,809)	1,459	(3,268)
As reported under IFRS	($1,222)	$2,237	($3,459)

Fair Value Adjustment on Real Estate Assets

(in thousands of Canadian dollars)	Three months ended March 31 2013	2012	Change
Fair value adjustment on real estate assets	$38,556	$126,950	($88,394)

In Q4 2012, the REIT elected to record real estate assets at fair value. This change in accounting policy has been applied on a retrospective basis. The change in fair value of real estate assets from period to period is recorded as a fair value adjustment in net income. Additionally, accrued rent receivable is no longer recorded as a separate asset as it is considered to be implicit in the fair value of real estate assets. See note 3 of the unaudited condensed combined interim financial statements for further fair value disclosure.

Loss on Sale of Real Estate Assets

(in thousands of Canadian dollars)	Three months ended March 31 2013	2012	Change
Loss on sale of real estate assets	$1,820	-	$1,820

The loss on sale of real estate assets in Q1 2013 is primarily due to commissions and other transaction costs incurred in selling the following three Canadian industrial properties: 1330 Martin Grove Rd., Toronto, ON, 351 Passmore Ave., Scarborough, ON and R.R.#1, Mile 295, 2600 Alaska Hwy., Fort Nelson, BC, as well as one Canadian office property, 295 The West Mall, Etobicoke, ON.

Net Gain (Loss) on Foreign Exchange

(in thousands of Canadian dollars)	Three months ended March 31 2013	2012	Change
Net gain (loss) on foreign exchange	$4,876	($5,340)	$10,216

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

(i) A foreign exchange gain (loss) of $4.9 million for the three months ended March 31, 2013 (March 31, 2012 - ($2.8 million)) which was recorded in the financial statements of Finance Trust due to a difference in exchange rates as the U.S. Holdco Notes receivable by Finance Trust are denominated in U.S. dollars while the financial statements of Finance Trust are expressed in

Canadian dollars. The notes are eliminated upon combination, however the foreign exchange difference is not eliminated on combination as U.S. Holdco has a different functional currency than that of the REIT.

(ii) For the acquisition of Hess Tower in Houston, TX in December 2011, the REIT loaned U.S. Holdco $250.0 million on December 22, 2011 which was repaid on January 23, 2012. The loss represents a change in the foreign exchange rates between these dates. For accounting purposes this resulted in a foreign exchange loss of $2.5 million for the three months ended March 31, 2013. The REIT had entered into a foreign exchange forward contact which, on a cash basis, resulted in no gain or loss.

Transaction Costs on Business Combination	Three months ended March 31		
(in thousands of Canadian dollars)	2013	2012	Change
Transaction costs on business combination	$4,162	$ -	$4,162

On April 4, 2013, pursuant to a statutory plan of arrangement, the REIT completed the acquisition of 27 properties from Primaris Retail Real Estate Investment Trust ("Primaris") with a fair value of $3.1 billion, and assumed indebtedness of approximately $1.4 billion. As a result of this business combination, for the three months ended March 31, 2013, the REIT incurred approximately $4.2 million in transaction costs relating to this acquisition which were expensed as incurred.

Income Tax Expense	Three months ended March 31		
(in thousands of Canadian dollars)	2013	2012	Change
Current income taxes	$155	$187	($32)
Deferred income taxes	7,293	1,734	5,559
Total income taxes	$7,448	$1,921	$5,527

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

The REIT's deferred income tax expense is recorded in respect of U.S. Holdco and arose due to taxable temporary differences between the tax and accounting bases of assets and liabilities net of the benefit of unused tax credits, deferred interest deductions and losses that are available to be carried forward to future tax years to the extent that it is probable that the unused tax credits, deferred interest deductions and losses can be realized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the assets are realized or the liabilities are settled, based on the tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognized in equity will also be recognized in equity.

At March 31, 2013, the REIT had net deferred tax liabilities of $52.1 million (March 31, 2012 - $1.7 million) primarily related to taxable temporary differences between the tax and accounting bases of U.S. investment properties.

SEGMENTED INFORMATION

The REIT invests in investment properties in both Canada and the United States occupied by creditworthy tenants with 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 unaudited condensed combined interim financial statements of the Trusts by rentals from investment properties 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, which includes investments from joint ventures, is as follows:

Property operating income for the three months ended March 31, 2013 (in thousands of Canadian dollars)	Canada	United States	Total per the REIT's financial statements	Canada-REIT's pro rata share relating to investment in joint ventures	Total
Rentals from investment properties	$171,383	$51,245	$222,628	$13,909	$236,537
Property operating costs	(60,725)	(10,863)	(71,588)	(6,198)	(77,786)
Property operating income	$110,658	$40,382	$151,040	$7,711	$158,751

Property operating income for the three months ended March 31, 2012 (in thousands of Canadian dollars)	Canada	United States	Total per the REIT's financial statements	Canada-REIT's pro rata share relating to investment in joint ventures	Total
Rentals from investment properties	$131,679	$51,292	$182,971	$3,315	$186,286
Property operating costs	(48,941)	(10,804)	(59,745)	(1,344)	(61,089)
Property operating income	$82,738	$40,488	$123,226	$1,971	$125,197

The change in U.S. property operating income of $0.1 million for the three months ended March 31, 2013, as compared to the respective 2012 period, is primarily due to an increase in rentals from acquisitions as the REIT has acquired nine properties in the United States between January 1, 2012 and March 31, 2013. Had the property operating income for properties located in the United States been shown in U.S. dollars and excluded: (i) the acquisitions during 2012, and (ii) the property income from those properties which have been sold or are held for sale, the adjusted property operating income would have been $38.4 million for the three months ended March 31, 2013 as compared to $38.3 million for the three months ended March 31, 2012.

ASSETS

Real Estate Assets

The REIT acquired a parcel of land adjacent to an existing investment property for $0.5 million during the period ended March 31, 2013. There were 11 properties and one investment in a joint venture acquired during the year ended December 31, 2012.

The REIT sold three industrial properties and one office property during the three months ended March 31, 2013. The REIT sold three industrial properties, four retail properties, a portion of an office property (sold as separate condominium units) and a parcel of land held for development during the year ended December 31, 2012.

2013 Dispositions:

Property	Property Type	Date Sold	Square Feet	Gross Proceeds ($ Millions)	Ownership Interest Disposed
1330 Martin Grove Rd., Toronto, ON	Industrial	Jan 23, 2013	162,775	$12.2	100%
351 Passmore Ave., Scarborough, ON	Industrial	Jan 31, 2013	161,137	8.3	100%
R.R. #1, Mile 295, Alaska Hwy., Fort Nelson, BC	Industrial	Mar 8, 2013	12,399	1.5	100%
295 The West Mall, Etobicoke, ON	Office	Mar 19, 2013	90,718	15.5	100%
Total			427,029	$37.5	

The following table below shows the change in real estate assets for the year ended December 31, 2012 and the three months ended March 31, 2013 per the Trust's financial statements:

	March 31, 2013		December 31, 2012	
	Investment Properties	Properties Under Development	Investment Properties*	Properties Under Development
Opening balance, beginning of year	$9,235,562	$128,220	$7,094,147	$1,721,743
Acquisitions of investment properties, including transaction costs	1,000	-	298,364	-
Additions to existing investment properties:				
Capital expenditures	1,794	-	19,850	-
Direct leasing costs	2,522	-	14,022	-
Redevelopment	12,543	-	-	-
Additions to properties under development	-	997	-	196,288
Dispositions	(9,732)	-	(133,153)	(17,824)
Transfer of investment properties held for sale	(25,000)	-	(27,800)	-
Amortization of leasing costs, straight-line rents and blend and extend rents included in revenue	22,187	-	(4,573)	29,673
Transfer of property under development that has reached practical completion	-	-	1,747,966	(1,747,966)
Change in foreign exchange	66,411	-	(64,644)	-
Fair value adjustment on real estate assets	38,556	-	291,383	(53,694)
Closing balance, end of period	$9,345,843	$129,217	$9,235,562	$128,220

* These amounts have been restated for the effect of change in accounting policy for joint ventures.

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

The portfolio continues to remain in good condition. The weighted average age of the total portfolio, including joint arrangements from the date built or renovated, is 17.7 years at March 31, 2013 (December 31, 2012 - 17.5 years) and the weighted average age of properties by type of asset is as follows:

Weighted Average Age by Type of Asset	March 31, 2013 (years)	December 31, 2012 (years)
Office	17.0	16.8
Industrial	19.4	19.1
Retail	14.7	14.4
Total	17.7	17.5

The following tables below disclose the fair values of the REIT's investment properties by asset and region, excluding assets held for sale:

Type of Asset (millions)	Fair Value March 31, 2013[(1)]	Fair Value December 31, 2012[(1)]
Office	$6,664	$6,576
Industrial	1,713	1,730
Retail	1,542	1,501
Total portfolio	$9,919	$9,807
Less: fair value of investment properties included in investments in joint ventures	(573)	(571)
Fair value of investment properties per the Trusts' financial statements	$9,346	$9,236

Region (millions)	Fair Value March 31, 2013[(1)]	Fair Value December 31, 2012[(1)]
Ontario	$3,862	$3,867
Alberta	2,912	2,871
Quebec	366	366
Other	516	514
Canada	7,656	7,618
United States	2,263	2,189
Total portfolio	$9,919	$9,807
Less: fair value of investment properties included investments in joint ventures	(573)	(571)
Fair value of investment properties per the Trusts' financial statements	$9,346	$9,236

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

Significant costs associated with investment properties, including those accounted for as joint ventures, are either capitalized or expensed in the year incurred. The REIT currently expects to incur the following costs over the next two years.

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
2013	$37 million	$20 million	$17 million	$29 million	$13 million	$16 million
2014	$24 million	$13 million	$11 million	$20 million	$11 million	$9 million

Investments In Joint Ventures (in thousands of Canadian dollars)	March 31 2013	December 31 2012
Investment properties	$573,250	$571,500
Other assets	811	604
Cash and cash equivalents	4,162	3,010
Total assets	578,223	575,114
Mortgages payable	(281,947)	(282,302)
Accounts payable and accrued liabilities	(19,698)	(16,455)
Investments in joint ventures	$276,578	$276,357

Mortgages and Amount Receivable

Mortgages and amount receivable increased from $7.0 million as at December 31, 2012 to $103.7 million as at March 31, 2013 primarily due to the REIT granting four mortgage receivables of $96.7 million of which $60.0 million related to the REIT loaning Primaris funds to repay a mortgage. This loan was subsequently repaid to the REIT on April 4, 2013.

The information contained in the table above is based on current tenancies in place and management's estimates of the timing of these projects and their recovery as additional rent.

Assets Classified as Held For Sale

The REIT currently has one investment property classified as held for sale as at March 31, 2013; 1235 Bay St., Toronto, ON, a 97,020 square foot office property with a fair value of $25.0 million (December 31, 2012 - two properties: 1330 Martin Grove Ave., Toronto, ON and 295 The West Mall, Etobicoke, ON with a total fair value of $27.8 million).

Other Assets (in thousands of Canadian dollars)	March 31, 2013	December 31, 2012
Current:		
Restricted cash	$23,266	$40,347
Accounts receivable	16,940	16,733
Prepaid expenses and sundry assets	14,557	7,759
Derivative instruments	1,066	1,679
Other assets per the REIT's financial statements	$55,829	$66,518

Restricted cash decreased from $40.3 million as at December 31, 2012 to $23.2 million as at March 31, 2013 primarily due to funds released from escrow for a new mortgage that closed on December 28, 2012 with funds received on January 2, 2013 and a partial release of funds held in escrow relating to the Bow.

Prepaid expenses and sundry assets increased from $7.8 million as at December 31, 2012 to $14.6 million as at March 31, 2013 primarily due to prepaid realty taxes.

Derivative instruments in asset and liability positions are not presented on a net basis. Refer to the "Derivative Instruments" table under "Liabilities" for a summary of all derivative instruments held by the REIT.

LIABILITIES

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

	March 31, 2013	December 31, 2012
Debt to total assets per the combined financial statements	49.5%	50.3%
Debt to total assets per the combined financial statements excluding convertible debentures	46.0%	46.9%
Non-recourse mortgages as a percentage of total mortgages	72.2%	70.6%
Floating rate debt as a percentage of total debt	0.5%	0.1%
Canadian properties total debt to fair market value of total Canadian assets	47.4%	46.6%
U.S. properties total debt to fair market value of total U.S. assets	56.2%	56.8%

Mortgages Payable

The following table shows the change in mortgages payable from December 31, 2012 to March 31, 2013:

(in thousands of Canadian dollars)	
Opening balance - December 31, 2012	$3,813,613
Principal repayments	(28,190)
Mortgages repaid upon maturity	(69,525)
Foreign exchange difference	38,469
Closing balance – March 31, 2013	$3,754,367

The following table discloses the REIT's mortgage payable balance, adjusted to include debt related to investments in joint ventures at the REIT's pro rata share:

	March 31, 2013	December 31, 2012
Mortgages payable per the combined financial statements	$3,754,367	$3,813,613
Add: pro rata share of mortgages payable related to investments in joint ventures	281,947	282,302
Total mortgages payable	$4,036,314	$4,095,915

The following table below shows the REIT's 5-year mortgage maturity profile as at March 31, 2013 and includes the REIT's pro rata share of mortgages related to investment in joint ventures:

MORTGAGES PAYABLE	Periodic Amortized Principal ($000's)	Principal on Maturity ($000's)	Total Principal[(1)] ($000's)	% of Total Principal	Weighted Average Interest Rate on Maturity
2013*	$98,723	$57,576	$156,299	3.9%	6.1%
2014	136,616	182,632	319,248	7.9%	6.2%
2015	138,006	217,938	355,944	8.8%	5.4%
2016	136,225	291,260	427,485	10.5%	5.3%
2017	134,226	337,156	471,382	11.7%	5.5%
Thereafter			2,313,326	57.2%	
			4,043,684		
Financing costs and mark-to-market adjustment arising on acquisitions[(1)]			(7,370)		
Total			$4,036,314		

* For the balance of the year.

(1) 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 costs over the life of the applicable mortgage.

The mortgages outstanding as at March 31, 2013 bear interest at a weighted average rate of 5.1% (December 31, 2012 - 5.1%) and mature between 2013 and 2035. The weighted average term to maturity of the REIT's mortgages is 7.5 years (December 31, 2012 - 7.7 years). For a further discussion of liquidity please see "Funding of Future Commitments". For a further discussion of interest rate risk, please see "Risks and Uncertainties".

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

Debentures Payable

	Maturity	Contractual Interest Rate	Effective Interest Rate	Conversion Price	Face Value (in $ millions)	March 31, 2013 Carrying Value (in $ millions)	December 31, 2012 Carrying Value (in $ millions)
Convertible Debentures							
2017 Convertible Debentures (HR.DB.C)	Jun 30, 2017	6.00%	6.00%	$19.00	$167.9	$205.4	$213.3
2020 Convertible Debentures (HR.DB.D)	Jun 30, 2020	5.90%	5.90%	$23.50	99.7	107.7	109.9
2016 Convertible Debentures (HR.DB.E)	Dec 31, 2016	4.50%	4.50%	$25.70	75.0	78.0	77.3
					342.6	391.1	400.5
Senior Debentures							
Series A Senior Debentures	Feb 3, 2015	5.20%	5.40%	n/a	115.0	114.6	114.5
Series B Senior Debentures	Feb 3, 2017	5.90%	6.06%	n/a	115.0	114.3	114.3
Series C Senior Debentures	Dec 1, 2018	5.00%	5.30%	n/a	125.0	123.2	123.1
Series D Senior Debentures	Jul 27, 2016	4.78%	4.96%	n/a	180.0	179.0	179.0
Series E Senior Debentures	Feb 2, 2018	4.90%	5.22%	n/a	100.0	98.8	98.8
Series F Senior Debentures	Mar 2, 2020	4.45%	4.63%	n/a	175.0	173.6	173.6
					810.0	803.5	803.3
Total					$1,152.6	$1,194.6	$1,203.8

Debentures payable decreased by $9.2 million from December 31, 2012 to March 31, 2013 mainly due to a decrease in the quoted prices of the 2017 and 2020 convertible debentures. This fluctuation in fair value between each period is recorded as a gain (loss) in changes in fair values in comprehensive income.

Deferred tax liability

The REIT has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	March 31, 2013	December 31, 2012
Deferred tax assets:		
Net operating losses and deferred interest deductions	$74.7	$72.1
Accounts payable and accrued liabilities	2.1	1.1
Other assets	0.2	0.2
	77.0	73.4
Deferred liabilities:		
Investment properties	128.9	116.4
Derivative instruments	0.2	0.4
	129.1	116.8
Deferred tax asset (liability)	($52.1)	($43.4)

The deferred tax liability relating to the investment properties is derived on the basis that the US. Investment properties will be sold at their current fair value. The tax liability will only be realized upon an actual disposition.

Derivative Instruments
(in thousands of Canadian dollars)

		Fair value (liability) asset*	
		March 31, 2013	December 31, 2012
Foreign exchange forward contracts	(a)	$1,066	$1,679
Mortgage interest rate swaps	(b)	(555)	(601)
		$511	$1,078

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

(b) The REIT entered into an interest rate swap on one U.S. mortgage.

* 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 "Assets - Other Assets" section of this MD&A.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased by $32.8 million between December 31, 2012 and March 31, 2013. The increase is primarily due to the REIT's distribution for the month of March 2013 being accrued as at March 31, 2013 and paid on April 2, 2013.

EQUITY

Unitholders' Equity

Unitholders' equity increased by $106.5 million between December 31, 2012 and March 31, 2013. The increase is primarily due to comprehensive income, which was partially offset by distributions paid to unitholders during the same period.

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

LIQUIDITY AND CAPITAL RESOURCES

FUNDS FROM OPERATIONS

Although funds from operations ("FFO") is widely used by the real estate industry as a measure of operating performance, the Trusts' method of calculating FFO may differ when comparing to other issuers. The Trusts present their FFO calculations in accordance with the Real Estate Property Association of Canada (REALPAC). FFO is a non-GAAP measure which should not be used as an alternative to comprehensive income or cash flow from operations. The figures in the table below include amounts relating to the REIT's investment in joint arrangements where applicable.

	Three months ended March 31	
(in thousands of Canadian dollars except per unit amounts)	2013	2012
Net income	$132,109	$199,326
Add (deduct)		
Exchangeable unit distributions	1,835	1,495
Gain on change in fair value	(12,228)	(4,642)
Amortization of leasing expenses	1,576	1,613
Fair value adjustment to unit-based compensation	(1,809)	1,459
Fair value adjustment on real estate assets	(38,556)	(126,950)
Fair value adjustment on the REIT's pro rata share of real estate assets included in investments in joint ventures	(1,338)	(7,023)
Loss on sale of real estate assets	1,820	-
Net (gain) loss on foreign exchange	(4,876)	5,340
Transaction costs on business combination	4,162	-
Deferred income taxes	7,293	1,734
FFO	$89,988	$72,352
Weighted average number of Stapled Units (in thousands of units adjusted for conversion of exchangeable Stapled Units)	200,394	180,336
Diluted weighted average number of Stapled Units (in thousands of Stapled Units) for the calculation of FFO(1)(2)(3)	216,858	209,382
FFO per Stapled Unit (basic – adjusted for conversion of exchangeable Stapled Units)	$0.45	$0.40
FFO per Stapled Unit (diluted)	$0.44	$0.39
Distributions per Stapled Unit	$0.34	$0.27
Payout ratio	75.6%	67.5%

(1) For the three months ended March 31, 2013 and 2012, 461,092 Stapled Units and 646,701 Stapled Units, respectively, are included in the determination of diluted FFO with respect to the REIT's Unit Option Plan.

(2) The 2016, 2017 and 2020 convertible debentures are dilutive for the three months ended March 31, 2013. Therefore, debenture interest of $4.8 million is added to FFO and 16,003,578 Stapled Units are included in the diluted weighted average number of Stapled Units outstanding for this period.

(3) The 2013, 2014, 2016, 2017 and 2020 convertible debentures are dilutive for the three months ended March 31, 2012. Therefore, debenture interest of $8.2 million is added to FFO and 28,399,664 Stapled Units are included in the diluted weighted average number of Stapled Units outstanding for this period.

Included in FFO are the following terms which can be a source of significant variances between periods.

(in thousands of Canadian dollars)	Three months ended March 31 2013	2012	Change
Additional recoveries for capital expenditures, including the REIT's pro rata share of real estate assets included in investments in joint ventures	$2,077	$942	$1,135
Incentive fee waived by the Property Manager	1,125	-	1,125
	$3,202	$942	$2,260

Excluding the above items, FFO would have been $86.8 million for the three months ended March 31, 2013 (Q1 2012 - $71.4 million) and $0.43 per basic Stapled Unit (Q1 2012 - $0.40 per basic Stapled Unit).

ADJUSTED FUNDS FROM OPERATIONS

Although adjusted funds from operations ("AFFO") is a common measure in the real estate industry, the Trusts' method of calculating AFFO may differ to that of other issuers. AFFO is calculated by adjusting FFO for non-cash items such as: straight-lining of contractual rent, rent amortization of tenant inducements, effective interest rate accretion, unit-based compensation and mortgage interest accruals on non-recourse mortgage defaults which is a non-cash item that will eventually result in a (gain) loss on extinguishment of debt, once the lender of the bankrupt properties takes legal title of properties. Non-recurring costs that impact operating cash flow may be adjusted, and capital and tenant expenditures incurred and capitalized in the period by the Trusts are deducted. AFFO is a non-GAAP measure which should not be used as an alternative to comprehensive income or cash flow from operations.

(in thousands of Canadian dollars except per unit amounts)	Three months ended March 31 2013	2012
FFO	$89,988	$72,352
Add (deduct):		
Straight-lining of contractual rent	(21,909)	(557)
Rent amortization of tenant inducements	364	366
Effective interest rate accretion	296	67
Mortgage interest accruals on non-recourse mortgage defaults	-	293
Unit-based compensation	587	778
Capital expenditures	(1,794)	(1,103)
Tenant expenditures	(2,522)	(1,102)
Pro rata share of AFFO adjustments from investments in joint ventures	(330)	154
AFFO	$64,680	$71,248

AFFO	$64,680	$71,248
Weighted average number of Stapled Units (in thousands of Stapled Units adjusted for conversion of exchangeable units)	200,394	180,336
Diluted weighted average number of Stapled Units (in thousands of Stapled Units) for the calculation of AFFO(1)(2)(3)	212,618	209,382
AFFO per Stapled Unit (basic - adjusted for conversion of exchangeable units)	$0.32	$0.40
AFFO per Stapled Unit (diluted)	$0.32	$0.38

(1) For the three months ended March 31, 2013 and 2012, 461,092 Stapled Units and 646,701 Stapled Units, respectively, are included in the determination of diluted AFFO with respect to the REIT's Unit Option Plan.

(2) The 2016 and 2017 convertible debentures are dilutive for the three months ended March 31, 2013. Therefore, debenture interest of $3.3 million is added to AFFO and 11,762,946 Stapled Units are included in the dilutive weighted average number of Stapled Units outstanding for this period.

(3) The 2013, 2014, 2016, 2017 and 2020 convertible debentures are dilutive for the three months ended March 31, 2012. Therefore, debenture interest of $8.2 million is added back to AFFO and 28,399,664 Stapled Units are included in the dilutive weighted average number of Stapled Units outstanding for this period.

The following is a reconciliation of the REIT's pro rata share of AFFO adjustments from investments in joint ventures:

	Three months ended March 31	
(in thousands of Canadian dollars)	2013	2012
Straight-lining of contractual rent	($24)	$123
Rent amortization of tenant inducements	3	-
Effective interest rate accretion	82	31
Capital expenditures	(391)	-
Total	($330)	$154

Included in AFFO are the following items which can be a source of significant variances between different periods:

	Three months ended March 31		
(in thousands of Canadian dollars)	2013	2012	Change
Additional recoveries for capital expenditures, including the REIT's pro rata share of real estate assets included in investments in joint ventures	$2,077	$942	$1,135
Capital and tenant expenditures	(4,316)	(2,205)	(2,111)
Incentive fee waived by the Property Manager	1,125	-	1,125
The Bow	(1,638)	16,652	(18,290)
	($2,752)	$15,389	($18,141)

Excluding the above items, AFFO would have been $67.4 million for the three months ended March 31, 2013 (Q1 2012 - $55.9 million) and $0.34 per basic Stapled Unit (Q1 2012 - $0.31 per basic Stapled Unit).

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

	Three months ended March 31	
(in thousands of Canadian dollars)	2013	2012
AFFO	$64,680	$71,248
Straight-lining of contractual rent	21,909	557
Net income from investments in joint ventures	(6,523)	(8,223)
Mortgage interest accruals on non-recourse mortgage defaults	-	(293)
Exchangeable unit distributions	(1,835)	(1,495)
Additions to capital expenditures and tenant expenditures	4,316	2,205
Finance cost - operations	65,991	51,293
Effective interest rate accretion	(296)	(67)
Fair value adjustment on the REIT's pro rata share of real estate assets included in investments in joint ventures	1,338	7,023
Pro rata share of AFFO adjustments from investments in joint ventures	330	(154)
Gain (loss) on foreign exchange	(13)	2
Transaction costs on business combination	(4,162)	-
Change in other non-cash operating items	(8,635)	18,565
Cash provided by operations	$137,100	$140,661

LIQUIDITY AND CAPITAL RESOURCES

Cash Distributions

In accordance with National Policy 41-201 - *Income Trusts and Other Indirect Offerings*, the Trusts are required to provide the following additional disclosure relating to cash distributions.

(in thousands of Canadian dollars)	Three months ended March 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010(1)
Cash provided by operating activities	$137,100	$519,305	$404,568(2)	$399,781
Net income	132,109	508,860	338,043	496,600
Cash distributions paid and payable relating to the period(3)	49,178	158,423	114,112	99,426
Excess of cash provided by operating activities over cash distributions paid and payable	87,922	360,882	290,456	300,355
Excess of net income over cash distributions paid and payable	82,931	350,437	223,931	397,174

(1) The 2010 figures have not been adjusted for the 2013 and 2012 changes in accounting policies.
(2) Cash provided by operating activities for the year ended December 31, 2011 has not been restated for the 2013 change in accounting policy.
(3) Cash distributions paid excludes distributions reinvested in units pursuant to the Trusts' unitholder distribution reinvestment plan.

For all the periods noted above, cash provided by operating activities exceeded cash distributions paid and payable. Management expects this trend to continue. Net income exceeded cash distributions paid and payable or all periods noted above. Non-cash items such as fair value adjustments on real estate assets, gain (loss) on change in fair value, gain (loss) on extinguishment of debt, deferred income tax recoveries and amortization are deducted from or added to net income (loss) and have no impact on cash available to pay current distributions.

Capital Resources

Subject to market conditions, management expects to be able to meet all of the Trusts' ongoing obligations and to finance short-term development commitments through the general operating facilities discussed below and the Trusts' cash flow from operations. As at March 31, 2013, the REIT is not in default or arrears on any of its obligations including interest or principal payments on debt and any debt covenant.

The REIT's general operating facility has been provided by the same chartered bank since the REIT's inception. This general operating facility expires on December 31, 2013 and is secured by certain investment properties. As at March 31, 2013, approximately $222.3 million was available under this facility. The REIT also has a second general operating facility with two Canadian chartered banks. This facility expires November 21, 2013 and is secured by the Bow. As at March 31, 2013, $300.0 million was available under this facility.

The following is a summary of material contractual obligations of the REIT including payments due as at March 31, 2013 for the next 5 years and thereafter:

	Payments Due by Period				
Contractual Obligations[1] (in thousands of Canadian dollars)	2013	2014- 2015	2016- 2017	2018 and thereafter	Total
Mortgages payable[2]	$156,299	$675,192	$898,867	$2,313,326	$4,043,684
2016 Convertible Debentures	-	-	75,000	-	75,000
2017 Convertible Debentures	-	-	167,965	-	167,965
2020 Convertible Debentures	-	-	-	99,654	99,654
Series A Senior Debentures	-	115,000	-	-	115,000
Series B Senior Debentures	-	-	115,000	-	115,000
Series C Senior Debentures	-	-	-	125,000	125,000
Series D Senior Debentures	-	-	180,000	-	180,000
Series E Senior Debentures	-	-	-	100,000	100,000
Series F Senior Debentures	-	-	-	175,000	175,000
Bank indebtedness	23,888	-	-	-	23,888
Total Contractual Obligations	$180,187	$790,192	$1,436,832	$2,812,980	$5,220,191

(1) The amounts in the above table are the principal amounts due under the contractual agreements.
(2) Includes the REIT's share of mortgages payable relating to investments in joint ventures.

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

DBRS has confirmed that the REIT has a credit rating of BBB with a Stable trend as at March 31, 2013. 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 March 31, 2013, through the combined amount available under its general operating facilities of $522.3 million, it has sufficient funds for future commitments.

The following summarizes the estimated loan to value ratios that will be outstanding on properties whose mortgages mature over the next five years, including investments in the REIT's share of mortgages relating to joint ventures:

Year	Number of Properties	Mortgage Debt due on Maturity ($000's)(1)	Weighted Average Interest Rate on Maturity	Fair Value of Investment Properties ($000's)(1)	Loan to Value
2013*	10	$57,576	6.1%	$174,006	33%
2014	8	182,632	6.2%	393,300	46%
2015	22	217,938	5.4%	432,676	50%
2016	37	291,260	5.3%	574,259	51%
2017	19	337,156	5.5%	615,330	55%
	96	$1,086,562		$2,189,571	50%

* For the balance of the year.
(1) Converting U.S. dollars to Canadian dollars at an exchange rate of $1.02 as at March 31, 2013.

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

OFF-BALANCE SHEET ITEMS

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

At March 31, 2013, such guarantees amounted to $71.5 million expiring in 2016 (December 31, 2012 - $72.1 million, expiring in 2016), and no amount has been provided for in the unaudited condensed combined interim financial statements of the Trusts for these items. These amounts arise where the REIT has guaranteed a co-owner's share of the mortgage liability. The REIT, however, customarily guarantees or indemnifies the obligations of its nominee companies which hold separate title to each of its properties owned.

In addition, the REIT continued to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable thereunder until such debts are extinguished or the lenders agree to release the REIT's covenants. At March 31, 2013, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk is approximately $109.5 million, expiring between 2013 and 2018 (December 31, 2012 - $110.3 million, expiring between 2013 and 2018). There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in the unaudited condensed combined interim financial statements of the Trusts.

Related Party Transactions

H&R Property Management Ltd. (the "Property Manager"), a company partially owned by family members of the REIT's 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 net gain on sale of investment properties adjusted for the add back of accumulated depreciation and amortization. Services are provided by the Property Manager pursuant to a property management agreement which expires on January 1, 2015 with one automatic five-year extension.

During the three months ended March 31, 2013, the REIT recorded fees pursuant to this agreement of $3.8 million (March 31, 2012 - $5.0 million), of which $0.2 million (March 31, 2012 - $1.3 million) was capitalized to the cost of investment properties acquired, nil (March 31, 2012 - $0.4 million) was capitalized to properties under development and $1.6 million (March 31, 2012 - $0.3 million) was capitalized to leasing expenses. The REIT has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the three months ended March 31, 2013, the Property Manager has waived the incentive fee. For the three months ended March 31, 2012, a further amount of $1.1 million was earned by the Property Manager pursuant to the above agreement, in accordance with the annual incentive fee payable to the Property Manager.

Pursuant to the above agreement, as at March 31, 2013, $0.4 million (December 31, 2012 - $1.8 million) was payable to the Property Manager.

The REIT leases space to companies affiliated with the Property Manager. The rental income earned for the three months ended March 31, 2013 is $0.4 million (March 31, 2012 - $0.4 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 may close further into the future than usual for typical transactions. The REIT has entered into an interest rate swap on one U.S. mortgage which effectively locked the interest rate at 5.25%. At the end of each reporting period, this interest rate swap is marked-to-market, resulting in an unrealized gain or loss recorded in comprehensive income.

Where appropriate, the REIT uses forward exchange contracts to lock-in foreign exchange rates. This strategy provides certainty in the foreign exchange rates on transactions that will occur in the future. The REIT has entered into forward exchange contracts with a Canadian chartered bank, which effectively locks in the REIT's rate of exchange for U.S. dollars into Canadian dollars.

SECTION III

SUMMARY OF QUARTERLY RESULTS

(in thousands of Canadian dollars)	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
Rentals from investment properties	$222,628	$216,580	$200,015	$199,593
Net income from investments in joint ventures	6,523	5,408	10,866	1,676
Finance income	745	402	494	334
Net income	132,109	102,635	100,690	106,209
Total comprehensive income	155,230	109,488	72,060	116,219

	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Rentals from investment properties	$182,971	$174,709	$166,140	$152,652
Net income from investments in joint ventures	8,223	3,232	2,885	625
Finance income	624	236	209	227
Net income	199,326	24,626	124,455	56,870
Total comprehensive income	196,094	13,708	149,382	54,073

Changes to the quarterly financial information are not reflective of seasonality or cyclicality but generally from new property acquisitions, dispositions and changes in the fair value of real estate assets and liabilities. Revenues may also 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 AND JUDGEMENTS

Preparation of the unaudited condensed combined interim financial statements of the Trusts requires management to make estimates and judgements that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period.

Management believes the policies which are subject to greater estimation and judgement are outlined below. For a detailed description of these and other accounting policies refer to notes 1 and 2 of the unaudited condensed combined interim financial statements of the Trusts and the REIT's 2012 consolidated financial statements.

Use of Estimates

Information about assumption and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are:

- Fair value of real estate assets;
- Fair value of financial instruments; and
- Fair value of cash-settled unit-based compensation.

Use of Judgements

- Valuations of real estate assets

  Real estate assets, which consist of investment properties and properties under development, are carried on the unaudited condensed combined interim statements of financial position at fair value, as determined by either qualified external valuation professionals or by management. The valuations are based on a number of assumptions, such as appropriate discount rates and capitalization rates and estimates of future rental income, operating expenses and capital expenditures. Valuation of real estate assets is one of the principal estimates and uncertainties of the REIT. Refer to note 3 of the unaudited condensed combined interim financial statements of the Trusts for further information on estimates and assumptions made in the determination of the fair value of real estate assets.

- Leases

  The REIT's policy for property rental revenue recognition is described in note 2(g) of the December 31, 2012 combined financial statements of the Trusts. The REIT makes judgements in determining whether certain leases, in particular those tenant leases with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases where the REIT is the lessor, are operating or finance leases. The REIT has determined that all of its leases are operating leases.

- Income Tax

  The REIT currently qualifies as a real estate investment trust and a mutual fund trust for Canadian income tax purposes. A real estate investment trust will not be subject to the tax levied on "specified investment flow-through" ("SIFT") trusts provided it continues to meet prescribed conditions under the Tax Act relating to the nature of its assets and revenue (the "REIT Conditions") at all times throughout a taxation year. Accordingly, no provision for current or deferred income taxes has been recorded by the REIT at March 31, 2013 in respect of its Canadian entities

  The REIT will not be subject to income tax in a year to the extent that it continues to qualify as a real estate investment trust and distributes all of its taxable income to its unitholders. Income allocated to unitholders will be taxed at the unitholder level. The REIT currently distributes, and is required to distribute, all of its income to its unitholders. Accordingly, for financial statement reporting purposes, the tax deductibility of the REIT's distributions is treated as an exemption from taxation.

  Deferred income taxes are recognized in respect of U.S. Holdco for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on deferred income tax assets and liabilities of a change in tax rate is recognized in income or unitholders' equity, as appropriate, in the period that includes the date of enactment or substantive enactment. Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which these tax benefits can be utilized.

- Tenant improvements

  The REIT makes judgments with respect to whether tenant improvements provided in connection with a lease enhance the value of the leased property, which determines whether such amounts are capitalized to investment properties.

DISCLOSURE CONTROLS AND PROCEDURES ("DC&P")

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of each Trust has reviewed its internal control over financial reporting on an annual basis. No changes were made to the design of either Trust's internal control over financial reporting during the three months ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Trusts' internal control over financial reporting. Management has concluded that its internal controls over financial reporting are operating effectively for the three months ended March 31, 2013.

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 real estate assets 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 investment properties of the REIT are Encana Corporation, Bell Canada, Hess Corporation and TransCanada PipeLines Limited. All of these companies have a public debt rating that is rated with at least a BBB stable rating by a recognized rating agency.

Interest and Other Debt-Related Risk

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

Construction Risks

It is likely that, subject to compliance with the REIT 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. 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.

Lease Rollover Risk

Lease rollover risk arises from the possibility that the REIT may experience difficulty renewing leases as they expire. Management attempts to enter into long-term leases to mitigate this risk. The leases for 16.1% of the REIT's total leasable area will expire in the next 5 years.

Currency Risk

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

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

Environmental Risk

As an owner and manager of real estate assets 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 Declaration of Trust and in accordance with best management practices, Phase 1 environmental 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 utilized requires tenants to comply with environmental laws and regulations, and restricts tenants from carrying on environmentally hazardous activities or having environmentally hazardous substances on site.

Unit Prices

Publicly traded trust units will not necessarily trade at values determined solely by reference to the underlying value of trust assets. Accordingly, the Stapled Units may trade at a premium or a discount to the underlying value of the assets of the REIT and Finance Trust. Investors in Stapled Units will be subject to all of the risks of an investment in units of Finance Trust and of an investment in units of the REIT. Holders of Stapled Units should consult the March 31, 2013 management's discussion and analysis of Finance Trust and consider the risk factors stated therein. See also "Forward-Looking Disclaimer".

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

Availability of Cash for Distributions

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

Ability to Access Capital Markets

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

Tax Risk

Legislation amending the Tax Act to implement new provisions affecting the tax treatment of certain publicly traded trusts and partnerships became law on June 22, 2007 (referred to herein as the ''SIFT Rules''). The SIFT Rules effectively tax certain income of a publicly traded trust or partnership that is distributed to its investors on the same basis as would have applied had the income been earned through a taxable corporation and distributed by way of dividend to its shareholders. The SIFT Rules apply only to ''SIFT trusts'', ''SIFT partnerships'' and their investors. A trust that meets the REIT Conditions throughout a taxation year will not be considered to be a SIFT trust in that year.

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

The REIT operates in the United States through U.S. Holdco which is capitalized with equity provided by the REIT and debt in the form of U.S. Holdco Notes owed to Finance Trust and HRLP. As at March 31, 2013, U.S. Holdco owed $166.4 million to Finance Trust and HRLP which is eliminated upon combination in Combined Financial Statements.

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

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

A foreign corporation will be classified as a passive foreign investment company ("PFIC") for United States federal income tax purposes if either (i) 75% or more of its gross income is passive income or (ii) on average for the taxable year, 50% or more of its assets (by value) produce or are held for the production of passive income. The properties of the REIT are managed by a third party rather than directly by its own employees. Although the REIT's officers and employees oversee the activities of the manager, it is likely that the REIT will be characterized as a PFIC for U.S. federal income tax purposes, though this conclusion is uncertain. In the absence of certain elections being made by a U.S. holder of REIT units, any distributions in respect of the REIT units which exceed 125% of the average amount of distributions in respect of such REIT units during the preceding three years, or, if shorter, during the preceding years in the U.S. holder's holding period ("excess distributions") and any gain on a sale or other disposition of the REIT units will be treated as ordinary income and will be subject to special tax rules, including an interest charge. U.S. holders should consult with their own tax advisors regarding the implications of these rules and the advisability of making one of the applicable PFIC elections, taking into account their particular circumstances.

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

On July 20, 2011, the Department of Finance announced proposed amendments to the provisions of the Tax Act concerning the income tax treatment of SIFTs, real estate investment trusts ("Real Estate Trusts") and publicly traded corporations, including changes impacting publicly traded stapled securities of such entities. Detailed draft legislation to enact these proposals and related explanatory notes were released by the government on July 25, 2012. In a publicly traded stapled structure involving a Real Estate Trust, the proposals would deny a deduction for payments made to the Real Estate Trust, or to a subsidiary of the Real Estate Trust. The Stapled Unit structure of the Trusts does not involve the kinds of payments that are stated to be the targets of the proposed amendments. In particular, the REIT does not receive interest or other income from Finance Trust and Finance Trust only receives income from a U.S. corporation which is a wholly-owned subsidiary of the REIT. The Trusts have reviewed the draft legislation and concluded that, while the draft legislation appears broader in scope than the proposals as originally announced, the proposals should not materially adversely affect the Trusts or the Stapled Units. The Trusts intend to continue to monitor developments relating to these proposals and their application.

Tax Consequences to U.S. Holders

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

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

Dilution

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

Unitholder Liability

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

Redemption Right

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

Debentures

The likelihood that purchasers of the 2016, 2017 and 2020 convertible debentures and the Series A, B, C, D, E and F 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 each of the Trusts are represented by a single class of units of each Trust respectively, which are unlimited in number. Each such unit carries a single vote at any meeting of unitholders of the respective Trust. As at May 8, 2013, there were 258,317,822 Stapled Units issued and outstanding (each comprised of a REIT unit and a Finance Trust unit).

As at March 31, 2013, the maximum number of units authorized to be granted under the REIT's Unit Option Plan was 18,000,000. Of this amount, 11,347,120 had been granted and 6,916,299 had been exercised and expired. As at May 8, 2013, there were 4,430,821 options to purchase Stapled Units outstanding of which 1,641,806 are fully vested.

The following table lists the principal outstanding balance of the REIT's convertible debentures as at May 8, 2013 and the number of Stapled Units required to convert the convertible debentures to equity:

Convertible Debentures	Principal outstanding as at May 8, 2013	Maximum number of Stapled Units issuable
2014 6.75% Debentures	$1.1 million	109,943
2015 6.30% Debentures	5.8 million	405,446
2016 4.50% Debentures	75.0 million	2,918,287
2017 6.00% Debentures	167.7 million	8,825,000
2018 5.40% Debentures	74.4 million	3,009,057
2020 5.90% Debentures	99.7 million	4,240,595

SUBSEQUENT EVENTS

(a) On April 4, 2013, pursuant to a statutory plan of arrangement, the REIT completed the acquisition of 27 properties from Primaris Retail Real Estate Investment Trust ("Primaris") with a fair value of approximately $3.1 billion, and assumed indebtedness of approximately $1.4 billion of which $339.0 million was subsequently repaid. Further, the REIT and Finance Trust issued approximately 62.5 million Stapled Units for delivery to certain Primaris unitholders, and the REIT assumed the 6.75% convertible debentures (the "6.75% Debentures") (remaining aggregate principal amount outstanding is approximately $1.2 million, as of April 4, 2013), 6.30% convertible debentures (the "6.30% Debentures") (remaining aggregate principal amount outstanding is approximately $7.7 million, as of April 4, 2013) and 5.40% convertible debentures (the "5.40% Debentures") (remaining aggregate principal amount outstanding is approximately $75.0 million, as of April 4, 2013) issued by Primaris. On April 8, 2013, the REIT issued notices of intent to redeem all the remaining 6.75% Debentures on May 27, 2013 and 6.30% Debentures on May 13, 2013 in accordance with their terms. In connection with the Primaris transaction, holders of approximately 2.1 million exchangeable units of certain subsidiaries of Primaris now hold an equal number of exchangeable units of certain subsidiaries of the REIT each of which is exchangeable for 1.166 Stapled Units.

(b) In April 2013, the REIT sold 1235 Bay St., an office property in Toronto, ON for gross proceeds of approximately $25.0 million.

(c) In May 2013, the REIT repaid two U.S. mortgages totalling U.S. $22.8 million bearing interest at an average rate of 5.95%.

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.