

**H&R REAL ESTATE INVESTMENT TRUST**

**ANNUAL INFORMATION FORM**

**For the Year Ended December 31, 2010**

**February 24, 2011**

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## GLOSSARY

The following terms used in this annual information form have the meanings set out below:

“**10% Threshold**” has the meaning ascribed thereto under “Management of the Properties”.

“**2008 Reorganization**” has the meaning ascribed thereto under “The REIT – 2008 Reorganization”.

“**2009 Reorganization**” has the meaning ascribed thereto under “The REIT – 2009 Reorganization”.

“**2013 Convertible Debentures**” means 6.65% convertible unsecured subordinated debentures due June 30, 2013.

“**2014 Convertible Debentures**” means 6.75% Series B convertible unsecured subordinated debentures due December 31, 2014.

“**2017 Convertible Debentures**” means 6.00% Series C convertible unsecured subordinated debentures due June 30, 2017.

“**2020 Convertible Debentures**” means 5.90% Series D convertible unsecured subordinated debentures due June 30, 2020.

“**Adjusted Interest Expense**” of any person for any period means the consolidated interest expense (as calculated in accordance with the Senior Trust Indenture) of such person for such period less (i) in the case of the REIT and Finance Trust, the amount of interest capitalized on the Bow, (ii) interest expense of such person for such period in respect of released non-recourse indebtedness, and (iii) in the case of the REIT, any one-time charge to the income statement in connection with the purchase of the Fairfax Debentures.

“**Acquiring Person**” has the meaning ascribed thereto under “Description of Stapled Units – REIT Unitholders’ Rights Plan”.

“**Adjusted Unitholders’ Equity**” means, at any time, the aggregate of (in each case as recorded in the books and records of the REIT (or Finance Trust, as the case may be) prepared on a consolidated basis in accordance with generally accepted accounting principles): (i) the amount of unitholders’ equity of the REIT, (ii) the amount of accumulated depreciation and/or amortization in respect of properties of the REIT, (iii) any discount on any instalment receipts receivable, (iv) all non-controlling interests, and (v) provided that an Event of Uncoupling has not occurred, the amount of unitholders’ equity of Finance Trust.

“**affiliate**” has the meaning ascribed thereto in the *Securities Act* (Ontario).

“**annuitant**” has the meaning ascribed thereto under “Risk Factors – Unitholder Liability”.

“**associate**” has the meaning ascribed thereto in the CBCA.

“**Audit Committee**” has the meaning ascribed thereto under “Audit Committee Information”.

“**Borrower**” has the meaning ascribed thereto under “Description of the Bow Construction Financing Facility”.

“**Bow Construction Financing Facility**” has the meaning ascribed thereto under “Description of the Bow Construction Financing Facility”.

“**Canada Yield Price**” means, in respect of a series of Senior Debentures, a price equal to the price of such Senior Debenture calculated to provide a yield to maturity, compounded semi-annually and calculated in accordance with generally accepted financial practice, equal to the Government of Canada Yield calculated at 10:00 a.m. (Toronto time) on the date on which the REIT gives notice of redemption pursuant to the terms of the Senior Trust Indenture, plus (i) in respect of Series A Senior Debentures, 0.69%; (ii) in respect of Series B Senior Debentures, 0.75%; (iii) in respect of the Series C Senior Debentures, 0.58%; and (iv) in respect of the Series D Senior Debentures, 0.51%.

“**Cash Equivalents**” has the meaning ascribed thereto under “Investment Guidelines and Operating Policies of Finance Trust – Investment Guidelines”.

“**BCA**” means the *Canada Business Corporations Act*, and the regulations thereunder, as amended.

“**Change of Control**”, with respect to Convertible Debentures, has the meaning ascribed thereto under “Description of Convertible Debentures – Redemption” and, with respect to Senior Debentures, has the meaning ascribed thereto under “Description of Senior Debentures – Change of Control”.

“**Cash Flow of Finance Trust**” has the meaning ascribed thereto under “Distribution Policy and Distribution – Finance Trust”.

“**Change to the Finance Trust Units**” has the meaning ascribed thereto under “REIT Declaration of Trust and Description of REIT Units – Transferability and Stapling of REIT Units”.

“**Co-Owners Agreements**” means the co-owners agreements entered into on or about December 23, 1996 between the REIT, the applicable members of the H&R Group and others with respect to the Initial Properties, all of which (with the exception of the Co-Owners Agreement for the Initial Property at 880 Milner Avenue, Toronto, Ontario) terminated as of November 1, 2004.

“**Code**” means the *Internal Revenue Code* (United States), as in effect from time to time.

“**Consolidated EBITDA**” of any person for any period means consolidated net income (as calculated in accordance with the Senior Trust Indenture) increased by the sum of (i) consolidated interest expense (as calculated in accordance with the Senior Trust Indenture), excluding interest that has been capitalized on projects that are under development or held for future development, for such period, (ii) income tax expense of such person for such period (other than income taxes, either positive or negative, attributable to extraordinary or non-recurring gains or losses) determined on a consolidated basis in accordance with generally accepted accounting principles, (iii) amortization of income properties (including provisions for impairment of income properties) for such period, determined on a consolidated basis in accordance with generally accepted accounting principles, (iv) amortization of the fair value of intangible assets and liabilities for such period, determined on a consolidated basis in accordance with generally accepted accounting principles, (v) any additional amortization of such person for such period, determined on a consolidated basis in accordance with generally accepted accounting principles, and (vi) other non-cash items in determining consolidated net income for such period.

“**Consolidated Indebtedness**” of any person as at any date means the consolidated indebtedness of such person as at such date determined, except as otherwise expressly provided in the Senior Trust Indenture, in accordance with generally accepted accounting principles.

“**Convertible Debenture Maturity Date**” means, with respect to the 2013 Convertible Debentures, June 30, 2013, with respect to the 2014 Convertible Debentures, December 31, 2014, with respect to the 2017 Convertible Debentures, June 30, 2017 and, with respect to the 2020 Convertible Debentures, June 30, 2020.

“**Convertible Debentures**” means, collectively, the 2013 Convertible Debentures, the 2014 Convertible Debentures, the 2017 Convertible Debentures and the 2020 Convertible Debentures.

“**Convertible Indenture Debentures**” means the debentures issued under the Convertible Trust Indenture, as supplemented by the first, second and third supplemental trust indentures and as supplemented by further supplemental trust indentures from time to time.

“**Convertible Trust Indenture**” has the meaning ascribed thereto under “Description of Convertible Debentures – General”.

“**DBRS**” means DBRS Limited.

“**Debenture Trustee**” means, in respect of each of the Convertible Trust Indenture and the Senior Trust Indenture, CIBC Mellon Trust Company, or any assignee under the respective indenture thereto.

“**Disposition Fee**” has the meaning ascribed thereto under “Management of the Properties”.

“**Disposition Fee Reduction**” means, for a fiscal year, 10% of the amount by which (i) all capitalized costs relating to the purchase and improvement of all properties sold in such fiscal year without deduction of depreciation, amortization or similar amounts (other than for deferred leasing costs and tenant inducements), exceeds (ii) net disposition proceeds realized on the sale of such properties.

“**Distributable Cash**” has the meaning ascribed thereto under “Management of the Properties”.

“**Distribution Date**” means on or about April 15, July 15 and October 15 and on December 31 in each calendar year, in the case of quarterly distributions or, in the case of monthly distributions, on or about the last day of each month, or either case, such other date as may be determined from time to time by, in the case of the REIT, the REIT Trustees and, in the case of Finance Trust, the Finance Trust Trustees.

“**Distributions**” means the amount that may be distributed to Unitholders pursuant to the REIT Declaration of Trust or the Finance Declaration of Trust, applicable.

“**EnCana**” means EnCana Corporation.

“**Event of Uncoupling**” has the meaning ascribed thereto under “Description of Stapled Units – An Event of Uncoupling”.

“**Excluded Properties**” has the meaning ascribed thereto under “Management of the Properties”.

“**Exercise Price**” has the meaning ascribed thereto under “Description of Stapled Units – REIT Unitholders’ Rights Plan”.

“**Extraordinary Resolution**” means, for any series of Senior Indenture Debentures, instruments in writing signed by the holders of not less than 66⅔% (or 75% in certain events as described under “Description of Senior Debentures – Modification and Waiver”) of the aggregate outstanding principal amount of such series of Senior Indenture Debentures or a resolution passed as an Extraordinary Resolution by the

affirmative vote of the holders of not less than 66⅔% (or 75% in certain events as described under “Description of Senior Debentures – Modification and Waiver”) of the aggregate outstanding principal amount of such series of Senior Indenture Debentures represented and voting at a meeting of holders of such series of Senior Indenture Debentures duly convened and held in accordance with the Senior Trust Indenture, all upon compliance with the procedures specified in the Senior Trust Indenture.

“**Fairfax**” means Fairfax Financial Holdings Limited and its affiliates.

“**Fairfax Debentures**” means the \$200 million aggregate principal amount of 11.5% debentures issued to Fairfax on a private placement basis in April 2009.

“**Finance Trust**” means H&R Finance Trust.

“**Finance Trust Declaration of Trust**” means the declaration of trust dated October 1, 2008, as amended and restated as of May 15, 2009 and August 12, 2010, governed by the laws of the Province of Ontario, pursuant to which Finance Trust was created, as further amended, supplemented or amended and restated from time to time.

“**Finance Trust Distributable Cash**” means the amount of cash available to be distributed by Finance Trust, calculated as set out under “Distribution Policy and Distributions – Finance Trust – Computation of Finance Trust Distributable Cash for Distribution Purposes”.

“**Finance Trust Trustee Discretionary Event of Uncoupling**” has the meaning ascribed thereto under “Description of Stapled Units – An Event of Uncoupling”.

“**Finance Trust Trustees**” means the trustees holding office under the Finance Trust Declaration of Trust.

“**Finance Trust Unit Redemption Date**” has the meaning ascribed thereto under “Finance Trust Declaration of Trust and Description of Finance Trust Units – Redemption of Finance Trust Units”.

“**Finance Trust Unit Redemption Price**” means the redemption price per Finance Trust Unit, calculated as set out under “Finance Trust Declaration of Trust and Description of Finance Trust Units – Redemption of Finance Trust Units”.

“**Finance Trust Units**” means units of interest in Finance Trust created in accordance with the provisions of the Finance Trust Declaration of Trust and includes a fraction of a Unit of Finance Trust.

“**Flip-in Event**” has the meaning as described under “Description of Stapled Units – REIT Unitholders’ Rights Plan”.

“**Government of Canada Yield**” on any date means the yield to maturity on such date, compounded semi-annually and calculated in accordance with generally accepted financial practice, which a non-callable Government of Canada bond would carry if issued in Canadian dollars in Canada, at 100% of its principal amount on such date with a term to maturity equal to the remaining term to maturity, calculated as of the redemption date, of the applicable Senior Debenture, such yield to maturity, being the average of the yields provided by two major Canadian investment dealers selected by the REIT.

“**Gross Book Value**” means, at any time, the sum of (in each case as recorded on the most recent balance sheet of the REIT, prepared on a consolidated basis in accordance with generally accepted accounting principles): (i) the book value of the assets of the REIT, plus (ii) the amount of accumulated depreciation

and/or amortization on the assets of the REIT, minus (iii) the final instalment under any instalment receipts representing REIT Units.

“**Hofstedter Family**” means Sandor Hofstedter, his wife, their children, the spouses of such children and the lineal descendants of such children.

“**H&R Developments**” is comprised of three corporations controlled by members of the Hofstedter Family or members of the Rubinstein Family.

“**H&R Group**” means (i) corporations controlled by members of the Hofstedter Family or the Rubinstein Family which own interests in the Initial Properties, and (ii) other corporations which own interests in the Initial Properties; provided that when a corporation referred to in (i) ceases to own any interest in the Initial Properties or any REIT Units issued to it under the Subsequent Sale Agreement, it shall no longer be a member of the H&R Group and when a corporation referred to in (ii) ceases to own any interest in the Initial Properties, it shall no longer be a member of the H&R Group.

“**HRLP**” means H&R Portfolio Limited Partnership, a limited partnership governed by the laws of the Province of Manitoba.

“**HRLP Exchangeable Unit**” has the meaning ascribed thereto under “The REIT – 2009 Reorganization”.

“**HRP Trust**” means H&R Portfolio LP Trust, an open-ended unit trust established under the laws of the Province of Ontario.

“**IFRS**” means International Financial Reporting Standards issued by the International Accounting Standards Board, and as adopted by the Canadian Institute of Chartered Accountants, as amended from time to time;

“**immediate family member**” where used to indicate a relationship with an individual means a parent, child or sibling of such individual.

“**Incentive Fee**” has the meaning ascribed thereto under “Management of the Properties”.

“**Indebtedness Percentage**” has the meaning ascribed thereto under “Description of Senior Debentures – Certain Senior Trust Indenture Covenants”.

“**Independent REIT Trustee**” means a REIT Trustee who is not a member of the Hofstedter Family, is not a member of the Rubinstein Family and is independent (as that term is used in National Instrument 58-101 – *Disclosure of Corporate Government Practices*) of the REIT.

“**Initial Properties**” has the meaning ascribed thereto under “The REIT – Business of the REIT”.

“**Investment Committee**” has the meaning ascribed thereto under “The REIT – Constatng Documents”.

“**joint venture entity**” has the meaning ascribed thereto under “Investment Guidelines and Operating Policies of the REIT – Investment Guidelines”.

“**joint venturers**” has the meaning ascribed thereto under “Investment Guidelines and Operating Policies of the REIT – Investment Guidelines”.

“**Management Services**” has the meaning ascribed thereto under “Management of the Properties”.

“**Mark-to-Market Election**” has the meaning ascribed thereto under “The REIT – Passive Foreign Investment Company”.

“**Net Gain**”, means, for a fiscal year, the amount by which (i) the net disposition proceeds realized on the completed sale of properties subject to the Omnibus Management Agreement, exceeds (ii) all capitalized costs relating to the purchase and improvement of such properties without deduction of depreciation, amortization or similar amounts (other than for deferred leasing costs and tenant inducements).

“**Non-Competition Agreement**” has the meaning ascribed thereto under “Non-Competition Arrangements”.

“**Non-Residents**” means, non-residents of Canada (within the meaning of the Tax Act) and/or partnerships that are not “Canadian partnerships” (within the meaning of the Tax Act), collectively.

“**Omnibus Management Agreement**” means the property management agreement originally between the REIT and the Property Manager, initially effective January 1, 2000, as amended as of November 1, 2004, March 1, 2006 with effect from and after January 1, 2006, November 9, 2007 with effect from and after January 1, 2007, and August 5, 2008, and as amended and restated as of October 1, 2008 to add U.S. Holdco as a party, among other changes, and as further amended as of May 14, 2010.

“**Other Securities**” has the meaning ascribed thereto under “REIT Declaration of Trust and Description of REIT Units – Issuance of REIT Units”.

“**Permitted Bid**” has the meaning ascribed thereto under “Description of Stapled Units – REIT Unitholders’ Rights Plan”.

“**PFIC**” has the meaning as described under “The REIT – Passive Foreign Investment Company”.

“**Plan of Arrangement**” means the court-approved plan of arrangement that effected the 2008 Reorganization.

“**Properties**” means, collectively, all the office properties, industrial properties and retail properties described under “Properties”.

“**Property Manager**” means H&R Property Management Ltd., a corporation incorporated under the laws of the Province of Ontario and owned by members of the Hofstedter Family and the Rubinstein Family.

“**Put Date**” has the meaning ascribed thereto under “Description of Convertible Debentures – Put Right Upon a Change of Control”.

“**QEF Election**” has the meaning as described under “The REIT – Passive Foreign Investment Company”.

“**REIT**” means H&R Real Estate Investment Trust and, if applicable, includes corporations and other entities wholly-owned, directly or indirectly, by the REIT.

“**REIT Declaration of Trust**” means the declaration of trust dated November 4, 1996, as amended and restated as of August 8, 1997, May 27, 1999, May 24, 2001, July 21, 2005, June 23, 2006, May 18, 2007, October 1, 2008, May 15, 2009 and August 12, 2010, governed by the laws of the Province of Ontario, pursuant to which the REIT was created, as further amended, supplemented or amended and restated from time to time.

“**REIT Exemption**” has the meaning ascribed thereto under “Risk Factors – Tax Risk”.

“**REIT Trustees**” means the trustees holding office under the REIT Declaration of Trust.

“**REIT Unit Redemption Date**” has the meaning ascribed thereto under “REIT Declaration of Trust and Description of REIT Units – Redemption of REIT Units – REIT Unit Redemption Price and Payment”.

“**REIT Unit Redemption Price**” means the redemption price per REIT Unit, calculated as set out under “REIT Declaration of Trust and Description of REIT Units – Redemption of REIT Units – REIT Unit Redemption Price and Payment”.

“**REIT Units**” means units of the REIT and includes a fraction of a unit of the REIT.

“**Related Parties**” means Sandor Hofstedter and Thomas J. Hofstedter.

“**relevant Unitholder**” has the meaning ascribed thereto under “Distribution Policy and Distributions – Finance Trust – Withholding Taxes”.

“**Right**” has the meaning ascribed thereto under “Description of Stapled Units – REIT Unitholders’ Rights Plan”.

“**Rights Plan**” means the unitholders’ rights plan referred to under “Description of Stapled Units – REIT Unitholders’ Rights Plan”.

“**Rubinstein Family**” means Bill Rubinstein, his wife, Daniel Rubinstein, his wife, any of their respective children, the spouses of such children and the lineal descendants of such children.

“**Senior Debentures**” means, collectively, the Series A Senior Debentures, the Series B Senior Debentures, the Series C Senior Debentures, and the Series D Senior Debentures.

“**Senior Indenture Debentures**” means the debentures issued under the Senior Trust Indenture, as supplemented by the first supplemental trust indenture and as may be supplemented by further supplemental trust indentures from time to time.

“**Senior Trust Indenture**” has the meaning ascribed thereto under “Description of Senior Debentures – General”.

“**Separation Time**” has the meaning ascribed thereto under “Description of Stapled Units – REIT Unitholders’ Rights Plan”.

“**Series A Senior Debentures**” means 5.20% Series A senior debentures due February 3, 2015.

“**Series B Senior Debentures**” means 5.90% Series B senior debentures due June 30, 2017.

“**Series C Senior Debentures**” means 5.00% Series C senior debentures due December 1, 2018.

“**Series D Senior Debentures**” means 4.78% Series D senior debentures due July 27, 2016.

“**Series 1 U.S. Holdco Notes**” means the first series of notes issuable pursuant to the U.S. Holdco Note Indenture.

“**SIFT rules**” has the meaning ascribed thereto under “Risk Factors – Tax Risk”.

“**SIFT trust**” has the meaning described under “Risk Factors – Tax Risk”.

“**SIFT Tax**” means the tax payable by a SIFT trust pursuant to paragraph 122(1)(b) of the Tax Act or by a SIFT partnership pursuant to section 197 of the Tax Act.

“**Stapled Unit**” means one REIT Unit and one Finance Trust Unit, which trade together.

“**Stapled Unit Acquisition Date**” has the meaning ascribed thereto under “Description of Stapled Units – REIT Unitholders’ Rights Plan”.

“**Subsequent Sale Agreement**” means an agreement made as of December 23, 1996 between the REIT and the H&R Group, as amended by an agreement made as of December 31, 1999, as further amended on November 1, 2004 and terminated, pursuant to which members of the H&R Group had the right to exchange from time to time until December 23, 2036 the remaining undivided interest in the Initial Properties owned by such members.

“**Support Agreement**” has the meaning ascribed thereto under “Description of Stapled Units – Support Agreement”.

“**Support Services**” has the meaning ascribed thereto under “Management of the Properties”.

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder, as amended.

“**taxation distribution amount**” has the meaning ascribed thereto under “Distribution Policy and Distributions – The REIT”.

“**the Bow**” has the meaning ascribed thereto under “The REIT – Business of the REIT”.

“**TSX**” means the Toronto Stock Exchange.

“**TT Portfolio LP**” means TT Portfolio Limited Partnership, a limited partnership formed under the laws of the Province of Alberta on December 1, 2003.

“**Unit Option Plan**” means the unit option plan of the REIT which was established in 1996, as amended from time to time.

“**Unitholder**” means, generally, a holder of a Stapled Unit and in limited circumstances means a holder of REIT Units or a holder of Finance Trust Units, as applicable.

“**Unitholders’ Equity**” has the meaning ascribed thereto under “Management of the Properties”.

“**U.S. Holdco**” has the meaning ascribed thereto under “The REIT – 2008 Reorganization”.

“**U.S. Holdco Note Indenture**” means a note indenture dated as of October 1, 2008 between U.S. Holdco, as issuer, and CIBC Mellon Trust Company, as trustee, which provides for the issuance of unsecured subordinated notes, in one or more series, in registered form denominated in U.S. dollars, as amended, supplemented or amended and restated from time to time.

“**U.S. Holdco Notes**” means interest bearing unsecured subordinated notes issued by U.S. Holdco to Finance Trust pursuant to the U.S. Holdco Note Indenture.

“*U.S. Unitholder*” means a holder of a REIT Unit that is for U.S. federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation or other entity treated as a corporation created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if it is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust, or has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

In this annual information form, amounts are stated in Canadian dollars unless otherwise indicated.

## **FORWARD-LOOKING STATEMENTS**

Certain information in this annual information form contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, among others, statements relating to the REIT’s objectives, strategies to achieve those objectives, the REIT’s beliefs, plans, estimates, projections and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts including, in particular, the REIT’s expectation regarding future developments in connection with the Bow. Forward-looking statements generally can be identified by words such as “outlook”, “objective”, “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “should”, “plans”, “project”, “budget” or “continue” or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect the REIT’s 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 REIT’s estimates and assumptions that are subject to risks and uncertainties, including those described below under “Risk Factors” and those discussed in the REIT’s materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results and performance of the REIT to differ materially from the forward-looking statements contained in this annual information form. Those risks and uncertainties include, among other things, risks related to: prices of REIT securities; availability of cash for distributions; development and financing relating to the Bow; restrictions pursuant to the terms of indebtedness; liquidity; credit risk and tenant concentration; interest rate and other debt related risk; tax risk; ability to access capital markets; dilution; lease rollover risk; construction risks; Unitholder liability; co-ownership interest in properties; competition for real property investments; environmental matters; reliance on one corporation for management of substantially all of the REIT’s properties; changes in legislation; and impact of adopting IFRS. 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 REIT cautions that this list of factors is not exhaustive. Although the forward-looking statements contained in this annual information form are based upon what the REIT believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Furthermore, readers are also urged to examine the REIT’s 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 to differ materially from the forward-looking statements contained in this annual information form.

All forward-looking statements in this annual information form are qualified by these cautionary statements. These forward-looking statements are made only as of the date of hereof and the REIT, except

as required by applicable law, assumes no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances.

**ANNUAL INFORMATION FORM**  
(Information as at December 31, 2010 unless otherwise indicated)

**THE REIT**

**Constating Documents**

H&R Real Estate Investment Trust is an unincorporated real estate investment trust created by the REIT Declaration of Trust under, and governed by, the laws of the Province of Ontario. The REIT is an open-ended investment trust.

Since November 4, 1996, the initial REIT Declaration of Trust has been amended and restated, with the approval of Unitholders, as follows: effective August 8, 1997 to revise the investment guidelines and operating policies and to provide that, at the discretion of the REIT Trustees, the REIT may distribute “Distributable Cash” (as defined therein) to Unitholders on a monthly basis; effective May 27, 1999 to make further changes to the REIT’s investment guidelines and operating policies; effective May 24, 2001 to amend the REIT’s distribution policy and the limitation on indebtedness of the REIT; effective July 21, 2005 primarily to provide Unitholders with the right of redemption for their REIT Units, to provide greater flexibility in the operation of the REIT, to respond to mandated changes in accounting principles and to make changes necessitated by the completion of the Subsequent Sale Agreement; effective June 23, 2006 to simplify the REIT’s indebtedness limitation; effective May 18, 2007 to amend the definition of “Distributable Cash” to clarify the manner of calculating payments of cash distributable by the REIT and distributions payable in REIT Units in certain circumstances, to provide a property-specific exclusion to the REIT’s operating policy concerning limitation on indebtedness, and to clarify the definition of “indebtedness” used in the REIT’s operating policy; effective October 1, 2008 to, among other things, reflect the stapling of REIT Units and Finance Trust Units, to better reflect the manner in which the REIT carries on business, to provide greater flexibility in the operation of the REIT, to correct certain inconsistencies and to remove references to the initial public offering of REIT Units, the H&R Group, an instalment receipt agreement and certain other references which in the REIT Trustees’ opinion are no longer applicable; effective May 15, 2009 to, among other things, eliminate any reference to the term “Distributable Cash” or a specified minimum cash distribution and instead to rely on forward-looking cash flow information to establish the level of cash distributions, and to focus on funds from operations and adjusted funds from operations going forward, and to include indebtedness incurred by the REIT in connection with the Bow in the determination of “indebtedness” (as defined in the REIT Declaration of Trust); and effective August 12, 2010 to, among other things, delete the requirement that the REIT distribute all of its taxable income and have all distributions of the REIT subject to the absolute discretion of the REIT Trustees, to exclude certain guarantees provided by the REIT of debt assumed by purchasers, on a primary obligor basis, in connection with past dispositions of properties and for which the purchaser has provided the REIT an indemnity or similar arrangement from the calculation of Gross Book Value, and to adjust the REIT’s operating policy so as to provide that the requirement to obtain an independent appraisal in connection with property acquisitions is at the discretion of the REIT’s Investment Committee (the “**Investment Committee**”).

**2008 Reorganization**

On October 1, 2008, the REIT completed an internal reorganization (the “**2008 Reorganization**”) in the course of which Finance Trust was created and the REIT Units began trading together with Finance Trust Units as Stapled Units (see “Description of Stapled Units”). Debt formerly owing by H&R REIT (U.S.) Holdings Inc. (“**U.S. Holdco**”) to the REIT was effectively replaced by an equivalent amount of debt payable by U.S. Holdco to Finance Trust. The 2008 Reorganization also resulted in the REIT owning its interest in TT Portfolio LP directly rather than through a taxable corporation. The 2008

Reorganization was completed in accordance with an advance income tax ruling issued by the Canada Revenue Agency confirming certain tax consequences.

### **2009 Reorganization**

On November 30, 2009, the REIT and Finance Trust completed a reorganization (the “**2009 Reorganization**”) as part of the steps required to enable the REIT to qualify as a “real estate investment trust” under the Tax Act applicable to publicly traded trusts and partnerships. The 2009 Reorganization involved, among other things, a redemption of the 5,437,565 Stapled Units by the REIT and Finance Trust held by HRLP, a subsidiary partnership of the REIT. In accordance with the REIT Declaration of Trust and the Finance Trust Declaration of Trust and upon the exercise of discretion by the REIT Trustees, as provided for in the REIT Declaration of Trust, the redemption price for REIT Units was paid in cash, while Finance Trust delivered U.S. Holdco Notes, in payment of the redemption price for the Finance Trust Units redeemed.

The 2009 Reorganization has resulted in a more conventional exchangeable limited partnership structure, comparable to other income funds and investment trusts whereby the underlying equity securities that the limited partnership units are exchangeable into are not outstanding but rather will be issued at the time of the exchange.

Each Class B Limited Participation LP unit of HRLP (a “**HRLP Exchangeable Unit**”) remains entitled to cash distributions from HRLP equal to the cash distributions on a Stapled Unit, and the HRLP Exchangeable Units continue to be exchangeable for the same number of Stapled Units post the 2009 Reorganization as prior to the 2009 Reorganization (except that such Stapled Units will be issued from treasury at the time of the exchange, as opposed to being outstanding).

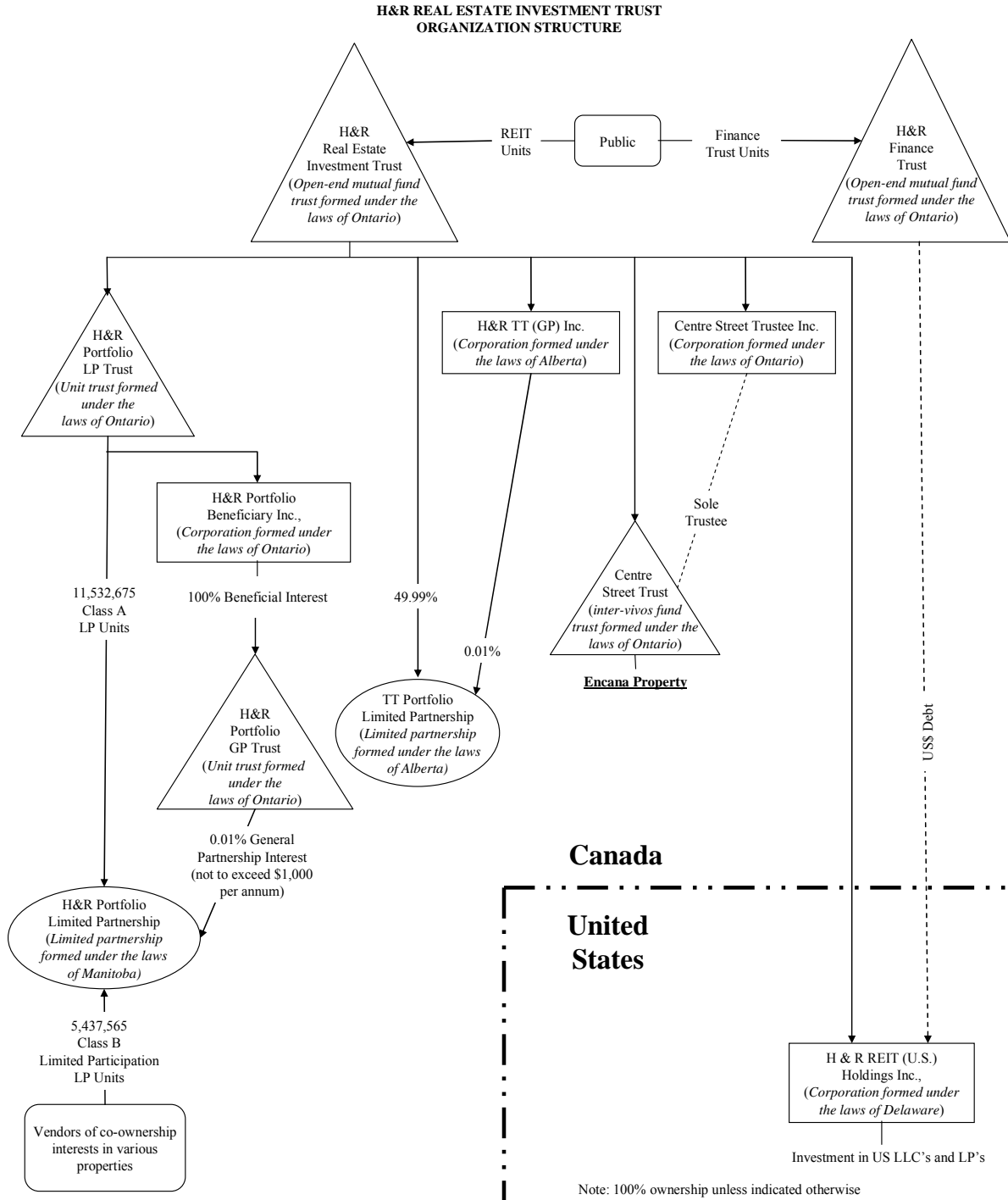
HRLP, the REIT, Finance Trust and HRP Trust entered into an exchange and support agreement dated November 30, 2009 that provides, among other things, for (i) certain capital contributions to be made by the REIT in case HRLP has insufficient (a) funds to pay the required distributions on the HRLP Exchangeable Units, or (b) U.S. Holdco Notes to pay the fair market value of the Finance Trust Units required to be delivered upon exchange of any HRLP Exchangeable Unit; and (ii) the mechanics whereby HRLP Exchangeable Units may be exchanged for Stapled Units.

### **2010 Reorganization**

During the second quarter of 2010, the REIT completed the necessary restructuring to qualify for the REIT Exemption under the SIFT rules commencing on January 1, 2011.

**Organizational Structure**

The following chart summarizes the structure of the REIT and Finance Trust at December 31, 2010, including material and certain other subsidiaries:



## Business of the REIT

The REIT commenced operations on December 23, 1996 with the completion of its initial public offering of REIT Units, represented by instalment receipts. Contemporaneously with the completion of its initial public offering, the REIT acquired a substantial interest in a portfolio of 12 office properties and 15 industrial properties (the “**Initial Properties**”). The REIT, as at December 31, 2010, owned and operated a portfolio of 282 Properties, of which 35 are office properties, 118 are industrial properties and 129 are retail properties; these numbers exclude properties whose tenants have filed for Chapter 11 protection with a United States bankruptcy court. The total leasable area of the Properties comprising the REIT’s portfolio was approximately 39.1 million square feet. The portfolio consisted of 28 properties located in Alberta, 107 properties located in Ontario, 17 properties located in Quebec, 26 properties located elsewhere in Canada and 104 properties located in the United States. Since January 1, 2011, the REIT has acquired two properties and has not disposed of any properties. Such acquisitions resulted in an increase of approximately 158,000 square feet of leasable area from the REIT’s portfolio, thereby bringing the total leasable area of the Properties comprising the REIT’s portfolio to approximately 39.3 million square feet.

The REIT has entered into agreements to develop “**the Bow**”, a 2.0 million square foot head office complex in Calgary, Alberta. See “Properties Under Development – The Bow – 5<sup>th</sup> Ave. at Centre St., Calgary, Alberta”. In addition, the REIT owns approximately 81 acres of land in Mississauga, Ontario, to develop approximately 1.6 million square feet of industrial property and owns approximately 205 acres of development land forming part of the planned community of Mayfield West located in Caledon, Ontario, that is expected to produce approximately 3.5 million square feet of industrial properties.

The REIT generally owns its Properties or develops its projects through nominee companies. Each of these companies is a non-operating holding company, the purpose of which is to hold as nominee the REIT’s interest in one particular property. In addition, U.S. Holdco is the indirect owner of all the real properties and buildings located in the United States; and HRLP holds a 100% interest in three industrial properties and an approximate 30% interest in the remaining Initial Properties. All of the outstanding Class A units of HRLP are owned by HRP Trust, all of the outstanding units of which are held by the REIT. All of the outstanding HRLP Exchangeable Units, which are exchangeable on a one-for-one basis at any time for Stapled Units (such Stapled Units will be issued from treasury at the time of the exchange), are held by some members of the H&R Group that exchanged their interest in the remaining Initial Properties for such HRLP Exchangeable Units on November 1, 2004. Since the completion of the 2009 Reorganization, no HRLP Exchangeable Units have been exchanged for Stapled Units. The general partner of HRLP is an *inter vivos* trust settled for the sole benefit of a wholly owned subsidiary of HRP Trust. See “The REIT – 2009 Reorganization”.

As at December 31, 2010, the REIT and its subsidiaries employed seven employees. The head and registered office of the REIT is located at Suite 500, 3625 Dufferin Street, Toronto, Ontario, M3K 1N4.

## General Developments of the Business of the REIT

Over the last three completed financial years, the portfolio of properties owned and operated by the REIT has changed both in number (from 301 as at December 31, 2007 to 282 as at December 31, 2010) and in leasable area (from approximately 43.0 million square feet as at December 31, 2007 to approximately 39.1 million square feet as at December 31, 2010).

Between January 1, 2008 and December 31, 2010 the portfolio of properties owned and operated by the REIT increased with the acquisition of 17 properties and development of two properties, and

decreased with the disposition of 25 properties, excluding those properties whose tenants have filed for protection under Chapter 11 of the United States Bankruptcy Code, and those properties in respect of which the lender took ownership of the property and released the mortgage. (For more information regarding contemplated future acquisitions, see “Outlook” in the REIT’s most recently filed management’s discussion and analysis, which may be found on SEDAR at [www.sedar.com](http://www.sedar.com)).

Over the last three completed financial years, the REIT has completed six public offerings raising total aggregate gross proceeds of approximately \$1,067.5 million through the issuance of 8,734,250 REIT Units, \$540 million Convertible Debentures, and an aggregate of \$355 million Series A Senior Debentures, Series B Senior Debentures and Series C Senior Debentures. Generally, proceeds from the public offerings have been used to repay indebtedness, fund future acquisitions and development of the Bow, and for general trust purposes. The proceeds from the Series A Senior Debentures and the Series B Senior Debentures were used to fund the repurchase of the Fairfax Debentures, as discussed below.

In January 2009, the REIT’s and Finance Trust’s aggregate monthly cash distributions were reduced by half such that the aggregate monthly cash distributions of the REIT and Finance Trust was \$0.06 per Stapled Unit (or \$0.72 per Stapled Unit on an annualized basis). On May 14, 2010, the REIT Trustees announced their intention to increase distributions for July through September 2010 to \$0.07 per Stapled Unit (or \$0.84 per Stapled Unit on an annualized basis) and, beginning October 2010 to the end of the second quarter of 2012, on a quarterly basis by 25 basis points. On the date hereof, the REIT Trustees revised the distribution schedule to further increase distributions effective the second quarter of 2011 through to the end of the fourth quarter of 2012. See “Distribution Policy and Distributions – The REIT”.

In April 2009, the REIT obtained the \$425 million secured Bow Construction Financing Facility. In January, May and October 2010, the Bow Construction Financing Facility was amended to, among other things, provide that (i) the expected annual effective interest rate, including the cost of the swap, was reduced from 6.90% to 4.65%, (ii) annual distributions to REIT Unitholders were no longer subject to a limit, and (iii) the execution of an acceptable management agreement for the Bow was no longer a condition precedent for borrowing, but must be satisfied prior to first occupancy. See “Description of the Bow Construction Financing Facility”.

In February 2010, the REIT completed a public offering of \$115 million principal amount of the Series A Senior Debentures, bearing interest at an annual rate of 5.20% per annum, and \$115 million principal amount of the Series B Senior Debentures, bearing interest at an annual rate of 5.90% per annum. The Series A Senior Debentures and the Series B Senior Debentures mature on February 3, 2015 and February 3, 2017, respectively. Interest on both the Series A Senior Debentures and the Series B Senior Debentures is payable semi-annually in arrears on February 3 and August 3 in each year. See “Description of Senior Debentures”.

Using the proceeds from the issuance of the Series A Senior Debentures and the Series B Senior Debentures, in February 2010 the REIT repurchased all of the outstanding Fairfax Debentures for a total repurchase price of approximately \$230 million. The repurchase price included accrued interest of approximately \$2 million. The REIT recognized a one-time non-recurring charge to the consolidated statement of earnings of approximately \$39 million, representing the difference between the repurchase price, excluding accrued interest expense, and the carrying value of the Fairfax Debentures of \$189 million.

In July 2010, the REIT completed a public offering of \$100 million principal amount of the 2020 Convertible Debentures, bearing interest at the annual rate of 5.90% per annum. The 2020 Convertible Debentures mature on June 30, 2020, and interest is payable semi-annually in arrears on June 30 and

December 31 in each year. Each 2020 Convertible Debenture is now convertible into freely tradeable Stapled Units at the holder's option at any time prior to the earlier of the Convertible Debenture Maturity Date and the business day immediately preceding the date specified by the REIT for redemption of the 2020 Convertible Debentures, at a conversion price of \$23.50 per Stapled Unit, being a conversion rate of approximately 42.5532 Stapled Units per \$1,000 principal amount, subject to adjustment upon the occurrence of certain events in accordance with the Convertible Trust Indenture. See "Description of Convertible Debentures".

In September 2010, the REIT completed a public offering of \$125 million principal amount of the Series C Senior Debentures, bearing interest at an annual rate of 5.00% per annum. The Series C Senior Debentures mature on December 1, 2018, and interest is payable semi-annually in arrears on June 1 and December 1 in each year. See "Description of Senior Debentures".

During the fourth quarter of 2010, the REIT acquired property under development comprising approximately 106 acres located in Caledon, Ontario. See "Properties Under Development".

In January 2011, the REIT entered into an agreement to purchase 595 Bay Street, 20 & 40 Dundas Street West and 306 Yonge Street in Toronto, Ontario, which are collectively known as the "Atrium on Bay" property for a total purchase price of \$344.8 million. As part of the foregoing purchase price, but subject to lender approval, the REIT will assume a non-recourse, \$190-million mortgage having a remaining term to maturity of approximately six years.

In January 2011, the REIT disclosed that, as a result of its transition to IFRS, the REIT will elect to use the cost model to value its investment properties when preparing financial statements, although, as provided under IFRS, the REIT will elect to use fair value as the deemed cost for 13 of its properties. This election will result in a net increase to investment properties on the REIT's balance sheet as at January 1, 2010 of approximately \$531 million, net of impairments. As at January 1, 2010, the majority of the REIT's portfolio was appraised at a fair value of \$4.9 billion by a leading independent real estate appraisal firm, while the REIT's remaining properties were valued internally by the REIT at approximately \$0.2 billion for a total value of \$5.1 billion. As at December 31, 2010, the REIT's entire portfolio was valued at approximately \$5.5 billion; \$1.1 billion of this total was appraised by a leading independent real estate appraisal firm.

In January 2011, the REIT completed the acquisition of the remaining 20% beneficial interest of a property under development in Brampton, Ontario not already owned by the REIT. See "Properties Under Development".

In January 2011, the REIT completed a public offering of \$180 million principal amount of the Series D Senior Debentures, bearing interest at an annual rate of 4.78% per annum. The Series D Senior Debentures mature on July 27, 2016, and interest is payable semi-annually in arrears on January 27 and July 27 in each year. See "Description of Senior Debentures".

### **Passive Foreign Investment Company**

The REIT is likely a "passive foreign investment company" ("**PFIC**") for United States federal income tax purposes. A PFIC is a foreign corporation if either (i) 75% or more of its gross income is passive income or (ii) 50% or more of the value of its assets (based on a quarterly average) produce or are held for the production of passive income. Absent a QEF Election or Mark-to-Market Election (both as described below), any gain on a sale or other disposition of REIT Units by a U.S. Unitholder, as well as a distribution that exceeds 125% of the average amount of distributions with respect to the REIT Units during the shorter of the preceding three years or the preceding years of the U.S. Unitholder's holding

period will be treated as ordinary income and subject to special tax rules. Under these special tax rules, (i) the amount of any such gain or distribution will be allocated rateably over the U.S. Unitholder's holding period for the REIT Units, (ii) the amount of ordinary income allocated to prior taxable years will be subject to U.S. federal income tax at the highest statutory rate applicable to such U.S. Unitholder for each such year (determined without regard to other income, losses or deductions of the U.S. Unitholder for such years), and (iii) the tax for such prior years will be subject to an interest charge, computed at the rate applicable to underpayments of tax.

If a U.S. Unitholder makes a timely election to treat the REIT as a "qualified electing fund" ("**QEF Election**"), such Unitholder will be required to annually include in gross income (i) as ordinary income, a pro rata share of the REIT's ordinary earnings, and (ii) as long-term capital gain, a pro rata share of the REIT's net capital gain regardless of whether the REIT has made a distribution to such Unitholder. The REIT is not undertaking to prepare the information statements required in order for Unitholders to be able to make a valid QEF Election and comply with the applicable reporting requirements.

A U.S. Unitholder that has elected to mark its REIT Units to market ("**Mark-to-Market Election**") is required to include in income the excess of the fair market value of the REIT Units as of the close of each taxable year over the U.S. Holder's adjusted basis therein. If the U.S. Unitholder's adjusted basis in the REIT Units is greater than the fair market value of the REIT Units as of the close of the taxable year, the U.S. Unitholder may deduct such excess, but only up to the aggregate amount of ordinary income previously included as a result of the Mark-to-Market Election, reduced by any previous deductions taken. The U.S. Unitholder's adjusted basis in the REIT Units will be increased by the amount of income or reduced by the amount of deductions resulting from the Mark-to-Market Election.

Under current U.S. law, U.S. Unitholders are required to file an annual return on IRS Form 8621, to make the QEF Election or the Mark-to-Market Election, and to disclose the income received (or deemed to be received pursuant to a QEF Election) from the REIT, any gain realized on a disposition of REIT Units, ordinary income or loss required to be recognized pursuant to the Mark-to-Market Election and certain other information.

## **OBJECTIVES OF THE REIT**

The following objectives have been approved by the REIT Trustees and may be amended or replaced by the REIT Trustees from time to time. In setting the objectives of the REIT, the REIT Trustees are subject to the investment guidelines and operating policies set out in the REIT Declaration of Trust. See "Investment Guidelines and Operating Policies of the REIT".

The objectives of the REIT are to (i) provide holders of REIT Units with stable and growing cash distributions, generated by revenue it derives from investments in income-producing real estate properties; and (ii) maximize REIT Unit value through the 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 manages its assets with an emphasis on maintaining stable operating cash flow through long-term leases to creditworthy tenants. Growth in operating cash flow is anticipated to be achieved through increases in lease rates built into existing long-term leases of the properties currently held by the REIT. Additional growth is anticipated to be achieved through acquisitions. The REIT has implemented an investment strategy of acquiring properties to provide additional operating cash flow and enhance long-term portfolio value. The REIT will also pursue development projects that are consistent with the objectives and philosophy of the REIT.

The REIT finances its activities with a combination of long-term fixed rate debt financing and drawings under lines of credit. To the extent that the REIT Trustees determine to seek additional capital, the REIT may raise such capital through additional equity offerings or debt financings.

## **INVESTMENT GUIDELINES AND OPERATING POLICIES OF THE REIT**

### **Investment Guidelines**

The REIT Declaration of Trust provides for certain guidelines on investments which may be made by the REIT. The assets of the REIT may be invested only in accordance with the following guidelines:

- (a) the REIT will focus its acquisition activities on existing income-producing properties, including office, retail and industrial properties, that are substantially leased;
- (b) the REIT shall not make any investment, take any action or omit to take any action where such investment, action or omission, as the case may be, would result in REIT Units not being units of a “mutual fund trust” within the meaning of the Tax Act, that would result in REIT Units not being qualified investments under the Tax Act for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans or tax-free savings accounts, or that would result in the REIT being liable to pay tax under the registered investment provisions of the Tax Act imposed for exceeding certain investment limits;
- (c) the REIT may invest in a joint venture arrangement only if:
  - (i) the arrangement is one pursuant to which the REIT holds an interest in real property jointly or in common with others (“joint venturers”) either directly or through the ownership of securities of a corporation or other entity (a “joint venture entity”) as co-owners and not as partners;
  - (ii) the REIT’s interest in the joint venture arrangement is not subject to any restriction on transfer other than a right of first refusal, if any, in favour of the joint venturers;
  - (iii) the REIT has a right of first refusal to buy the interests of the other joint venturers;
  - (iv) the joint venture arrangement provides an appropriate buy-sell mechanism to enable a joint venturer to purchase the other joint venturers’ interests or to sell its interest; and
  - (v) the joint venture arrangement provides that the liability of the REIT to third parties is several and not joint and several, provided however, that subject to any remedies that each joint venturer may have against the other joint venturers, a joint venturer may be required to give up its interest in any particular property owned by the joint venture entity as a result of another joint venturer’s failure to honour its proportionate share of the obligations relating to such property,

provided that the foregoing does not apply to the Co-Owners Agreements;

- (d) except for temporary investments held in cash, deposits with a Canadian chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities, some or all of the receivables under instalment receipt agreements or in money market instruments of, or guaranteed by, a Schedule 1 Canadian bank maturing prior to one year from the date of issue or except as permitted pursuant to paragraphs (g), (h), (i) and (j), the REIT may not hold securities of another issuer unless either (in each case as determined by the REIT Trustees): (i) such securities derive their value, directly or indirectly, principally from real property; or (ii) the principal business of the issuer of the securities is the ownership or operation, directly or indirectly, of real property;
- (e) except as otherwise prohibited in the REIT Declaration of Trust, the REIT may invest, directly or indirectly, in interests (including fee ownership and leasehold interests) in income-producing real property in Canada and the United States;
- (f) the REIT shall not invest in rights to or interests in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property;
- (g) the REIT shall not invest in operating businesses (unless such investment is incidental to a transaction (i) where revenue will be derived, directly or indirectly, principally from real property, or (ii) which principally involves the ownership or operation, directly or indirectly, of real property (in each case as determined by the REIT Trustees)) or acquire interests in general partnerships or limited partnerships provided that the REIT may invest in TT Portfolio LP, or any other partnership if: (i) the partnership is formed and operated solely for the purpose of acquiring, holding, maintaining, improving, leasing or managing a particular real property or properties or interests therein; (ii) except as a majority of the Independent REIT Trustees may otherwise approve, the REIT's interest in the partnership is not subject to any restriction on transfer other than a right of first refusal or right of first offer, if any, in favour of any other partner or any affiliate thereof; and (iii) the REIT has received a legal opinion to the effect that the REIT would not lose its status as a "mutual fund trust" within the meaning of the Tax Act or any other status under the Tax Act that is otherwise beneficial to the REIT and its unitholders solely as a result of the REIT having made the investment;
- (h) the REIT may invest in raw land for development or other development projects for the purpose of:
  - (i) the renovation or expansion of existing facilities; or
  - (ii) the development of new facilities which will, upon completion, be income-producing.

In furtherance of subparagraph (ii) above, without limiting the generality of paragraph (d) above and notwithstanding the provisions of paragraphs (i) and (j) below, the REIT may invest in mortgages (including participating or convertible mortgages) granted by:

- (A) an entity directly or indirectly wholly owned by the REIT or jointly by the REIT with a joint venturer;
- (B) a joint venturer; or

- (C) provided that the REIT has an option or a right to acquire an interest in the project, an entity which owns any such development project,

in each case secured against the real property underlying any such development project and may continue to hold such mortgages following completion of the project.

Notwithstanding subparagraph (ii) above, the REIT may only commence funding the actual construction phase of any such new facility, or any phase thereof, upon satisfactory leasing or pre-leasing arrangements (as determined by the REIT Trustees in their discretion) being in place for not less than 70% of the net rentable area of such facility, or any phase thereof, as the case may be;

- (i) the REIT may invest in mortgages and mortgage bonds (including, with the consent of a majority of the REIT Trustees, a participating or convertible mortgage) where: (i) the real property which is security therefor is income-producing real property which otherwise meets the general guidelines of the REIT adopted by the REIT Trustees from time to time in accordance with the REIT Declaration of Trust and the restrictions set out therein; (ii) the amount of the mortgage loan is not in excess of 75% of the market value of the property securing the mortgage and the mortgage has at least 1.2x debt service coverage; (iii) the mortgage is a first mortgage registered on title to the real property which is security therefor; and (iv) the aggregate value of the investments of the REIT in these mortgages, after giving effect to the proposed investment, will not exceed 20% of the Adjusted Unitholders' Equity;
- (j) the REIT may invest in mortgages if the sole intention is to use the acquisition of the mortgages as a method of acquiring control of an income-producing real property which would otherwise meet the investment guidelines of the REIT and provided the aggregate value of the investments of the REIT in these mortgages, after giving effect to the proposed investment, will not exceed 20% of the Adjusted Unitholders' Equity; and
- (k) subject to paragraph (b), the REIT may invest an amount (which, in the case of an amount invested to acquire real property, is the purchase price less the amount of any indebtedness assumed or incurred by the REIT and secured by a mortgage on such property) up to 15% of the Adjusted Unitholders' Equity in investments or transactions which do not comply with paragraphs (d), (e), (h), (i) and (j) above or paragraph (d) under the heading “– Operating Policies” below.

For the purpose of the foregoing guidelines (other than paragraph (b)), the assets, liabilities and transactions of a corporation or other entity wholly or partially owned by the REIT will be deemed to be those of the REIT on a proportionate consolidation basis. In addition, any references in the foregoing to investment in real property will be deemed to include an investment in a joint venture arrangement. Nothing in the guidelines (other than paragraph (b)) prohibits the REIT from holding some or all of the receivables due pursuant to instalment receipt agreements.

### **Operating Policies**

The REIT Declaration of Trust provides that the operations and affairs of the REIT shall be conducted in accordance with the following policies:

- (a) (i) any written instrument creating an obligation which is or includes the granting by the REIT of a mortgage, and (ii) to the extent the REIT Trustees determine to be practicable

and consistent with their fiduciary duty to act in the best interests of the unitholders, any written instrument which is, in the judgment of the REIT Trustees, a material obligation, shall contain a provision or be subject to an acknowledgment to the effect that the obligation being created is not personally binding upon, and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any of the REIT Trustees, unitholders, annuitants under a plan of which a unitholder acts as a trustee or carrier, or officers, employees or agents of the REIT, but that only property of the REIT or a specific portion thereof shall be bound; the REIT, however, is not required, but shall use all reasonable efforts, to comply with this requirement in respect of obligations assumed by the REIT upon the acquisition of real property;

- (b) the REIT shall not lease or sublease to any person any real property, premises or space where that person and its affiliates would, after the contemplated lease or sublease, be leasing or subleasing real property, premises or space having a fair market value net of encumbrances in excess of 20% of the Adjusted Unitholders' Equity;
- (c) the limitation contained in paragraph (b) shall not apply to the renewal of a lease or sublease and shall not apply where the lessee or sublessee is, or where the lease or sublease is guaranteed by:
  - (i) the Government of Canada, the Government of the United States, any province of Canada, any state of the United States or any municipality in Canada or the United States, or any agency thereof;
  - (ii) any corporation, of which any of the bonds, debentures or other evidences of indebtedness of or guaranteed by which are:
    - (A) authorized as an investment for insurance companies pursuant to paragraph 86(1)(k) of the *Canadian and British Insurance Companies Act* in effect on December 31, 1991; or
    - (B) have received and continue to hold an "investment grade" rating from at least one of Canadian Bond Rating Service Inc., DBRS, Moody's Investors Service, Inc. or Standard & Poor's Corporation,

in each case at the time the lease or sublease is entered into, or at the time other satisfactory leasing or pre-leasing arrangements (as determined by the REIT Trustees in their discretion) were entered into. In the case of an investment permitted pursuant to clause (h)(ii)(C) under the heading "– Investment Guidelines" above, the foregoing may be determined at the time that the option or right to acquire an interest in the project is granted; or
  - (iii) a Canadian chartered bank registered under the laws of a province of Canada;
- (d) in addition to the provisions of paragraph (h) under the heading "– Investment Guidelines" above, the REIT may engage in construction or development of real property in order to maintain its real properties in good repair or to enhance the income-producing potential of properties in which the REIT has an interest;

- (e) title to each real property shall be held by and registered in the name of the REIT, the REIT Trustees or in the name of a corporation or other entity wholly-owned, directly or indirectly, by the REIT or jointly, directly or indirectly, by the REIT with joint venturers;
- (f) the REIT shall not incur or assume any indebtedness if, after giving effect to the incurring or assumption of the indebtedness, the total indebtedness of the REIT would be more than 65% of the Gross Book Value; for the purposes of this paragraph, the term “**indebtedness**” means (without duplication) on a consolidated basis:
  - (i) any obligation of the REIT for borrowed money;
  - (ii) any obligation of the REIT incurred in connection with the acquisition of property, assets or business;
  - (iii) any obligation of the REIT issued or assumed as the deferred purchase price of property;
  - (iv) any capital lease obligation of the REIT; and
  - (v) any obligation of the type referred to in subparagraphs (i) through (iv) above of another person, the payment of which the REIT has guaranteed or for which the REIT is responsible or liable, other than such an obligation in connection with a property that has been disposed of by the REIT for which the purchaser has assumed such obligations on a primary obligor basis and provided the REIT with an indemnity or similar arrangement therefor;

provided that (A) for the purposes of subparagraphs (i) through (iv) above, an obligation will constitute indebtedness only to the extent that it would appear as liability on the consolidated balance sheet of the REIT in accordance with generally accepted accounting principles, (B) obligations referred to in subparagraphs (i) through (iii) above exclude trade accounts payable, distributions payable to unitholders and accrued liabilities arising in the ordinary course of business, (C) obligations referred to in subparagraph (v) above exclude those of another person who is a joint venture partner with the REIT in a joint venture arrangement that is in compliance with the REIT’s investment guideline regarding joint venture arrangements and (D) “indebtedness” does not include (1) convertible debt instruments issued by the REIT under which the principal amount owing may be satisfied by the REIT through the issuance of REIT Units and/or, prior to any Event of Uncoupling, the issuance by Finance Trust of Finance Trust Units, (2) debt secured against instalment receipts, (3) any amount owing pursuant to the U.S. Holdco Notes, or (4) any debt similar to (1) or (2) above;

- (g) except as may be contemplated by the Co-Owners Agreements, the REIT shall not directly or indirectly guarantee any indebtedness or liabilities of any person unless such guarantee: (i) is given in connection with or incidental to an investment that is otherwise permitted under the heading “– Investment Guidelines” above; (ii) has been approved by a majority of the Independent REIT Trustees; and (iii) (A) would not disqualify the REIT as a “mutual fund trust” within the meaning of the Tax Act, and (B) would not result in the REIT losing any other status under the Tax Act that is otherwise beneficial to the REIT and its unitholders;

- (h) for each property so determined by the Investment Committee in its sole discretion, the REIT shall prior to the acquisition thereof by the REIT obtain an independent appraisal of such property;
- (i) the REIT shall obtain and maintain at all times insurance coverage in respect of potential liabilities of the REIT and the accidental loss of value of the assets of the REIT from risks, in amounts, with such insurers, and on such terms as the REIT Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties; and
- (j) the REIT shall have conducted a Phase I environmental audit of each real property to be acquired by it and, if the Phase I environmental audit report recommends a Phase II environmental audit be conducted, the REIT shall have conducted a Phase II environmental audit, in each case by an independent and experienced environmental consultant; such audit as a condition to any acquisition, shall be satisfactory to the REIT Trustees. All new leases granted by the REIT shall contain appropriate covenants from the lessee respecting environmental matters as determined by the REIT Trustees from time to time.

For the purpose of the foregoing policies, the assets, liabilities and transactions of a corporation or other entity wholly or partially owned by the REIT will be deemed to be those of the REIT on a proportionate consolidated basis. In addition, any references in the foregoing to investment in real property will be deemed to include an investment in a joint venture.

#### **Amendments to Investment Guidelines and Operating Policies**

Pursuant to the REIT Declaration of Trust, all of the investment guidelines set out under the heading “– Investment Guidelines” and the operating policies contained in paragraphs (d), (f), (g), (h), (i) or (j) under the heading “– Operating Policies” may be amended only with the approval of at least two-thirds of the votes cast by unitholders of the REIT at a meeting of unitholders called for such purpose. Notwithstanding the foregoing sentence, if at any time a government or regulatory authority having jurisdiction over the REIT or any property of the REIT shall enact any law, regulation or requirement which is in conflict with any investment restriction of the REIT then in force, such restriction in conflict shall, if the REIT Trustees on the advice of legal counsel to the REIT so resolve, be deemed to have been amended to the extent necessary to resolve any such conflict and, notwithstanding anything to the contrary, any such resolution of the REIT Trustees shall not require the prior approval of unitholders of the REIT. The remaining operating policies under the heading “– Operating Policies” may be amended with the approval of a majority of the votes cast by holders of REIT Units at a meeting called for such purpose.

## **FINANCE TRUST**

Finance Trust is an open-ended limited purpose unit trust created by the Finance Trust Declaration of Trust under, and governed by, the laws of the Province of Ontario. The head and registered office of Finance Trust is located at Suite 500, 3625 Dufferin Street, Toronto, Ontario, M3K 1N4.

### **OBJECTIVES OF FINANCE TRUST**

Finance Trust's sole activity is to hold debt issued by U.S. Holdco, a wholly-owned subsidiary of the REIT through which the REIT holds its U.S. interests. Subject to cash-flow requirements, Finance Trust will make distributions to holders of Finance Trust Units consisting primarily of interest paid by U.S. Holdco, less administration and other expenses (see "Risk Factors – Interest on U.S. Holdco Notes").

### **INVESTMENT GUIDELINES AND OPERATING POLICIES OF FINANCE TRUST**

#### **Investment Guidelines**

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

- (a) U.S. Holdco Notes; and
- (b) temporary investments held 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 is satisfied: (i) if the Cash Equivalents have a maturity date, the Cash Equivalents must be held until maturity; (ii) the Cash Equivalents are required to fund expenses of the trust, a redemption of Finance Trust Units, or distributions to Unitholders, in each case before the next Distribution Date; and (iii) the purpose of holding the Cash Equivalents is to prevent funds from being non-productive, and not to take advantage of market fluctuations.

Finance Trust shall not make any investment, take any action or omit to take any action where such investment, action or omission, as the case may be, would result in Finance Trust Units not being units of a "mutual fund trust" within the meaning of the Tax Act, that would result in Finance Trust Units not being qualified investments under the Tax Act for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans or tax-free savings accounts, that would result in the Finance Trust being liable to pay tax under the registered investment provisions of the Tax Act imposed for exceeding certain investment limits or that would disqualify Finance Trust as a "fixed investment trust" under the Code.

Finance Trust may not invest in any joint venture arrangement, or enter into any partnership.

#### **Operating Policies**

The Finance Trust Declaration of Trust provides that the operations and affairs of Finance Trust shall be conducted in accordance with the following policies:

- (a) to the extent the Finance Trust Trustees determine to be practicable and consistent with their fiduciary duty to act in the best interests of the Unitholders, any written instrument which is, in the judgment of the Finance Trust Trustees, a material obligation, shall

contain a provision or be subject to an acknowledgement to the effect that the obligation being created is not personally binding upon, and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any of the Finance Trust Trustees, Unitholders, annuitants under a plan of which a Unitholder acts as a trustee or carrier, or officers, employees or agents of Finance Trust, but that only property of Finance Trust or a specific portion thereof shall be bound;

- (b) Finance Trust shall not incur or assume any indebtedness provided that for the purposes of this paragraph (b), an obligation will constitute indebtedness only to the extent that it would appear as a liability on the consolidated balance sheet of Finance Trust in accordance with generally accepted accounting principles and for this purpose indebtedness excludes trade accounts payable, distributions payable to Unitholders and accrued liabilities arising in the ordinary course of business; and
- (c) Finance Trust shall not directly or indirectly guarantee any indebtedness or liabilities of any person.

### **Amendments to Investment Guidelines and Operating Policies**

Pursuant to the Finance Trust Declaration of Trust, all of the investment guidelines set out under the heading “– Investment Guidelines” and the operating policies contained in paragraphs (b) or (c) under the heading “– Operating Policies” may be amended only with the approval of at least two-thirds of the votes cast by unitholders of Finance Trust at a meeting of unitholders called for such purpose. Notwithstanding the foregoing sentence, if at any time a government or regulatory authority having jurisdiction over Finance Trust or any property of Finance Trust shall enact any law, regulation or requirement which is in conflict with any investment restriction of Finance Trust then in force, such restriction in conflict shall, if the Finance Trust Trustees on the advice of legal counsel to Finance Trust so resolve, be deemed to have been amended to the extent necessary to resolve any such conflict and, notwithstanding anything to the contrary, any such resolution of the Finance Trust Trustees shall not require the prior approval of unitholders of Finance Trust. The remaining operating policies under the heading “– Operating Policies” may be amended with the approval of a majority of the votes cast by holders of Finance Trust Units at a meeting called for such purpose.

## PROPERTIES

The following is a detailed description of the Properties and the leasing information as at December 31, 2010.

### Description of the Office Properties

Office Properties	Ownership Interest	Year Built/ Renovated	Net Rentable Area (Square Feet)	Occupancy	Major Tenants
160 Elgin St. <sup>(1)</sup> Ottawa, ON	100%	1971	988,689	99%	Bell Canada, Public Works of Canada, Gowling Lafleur Henderson LLP, KPMG
450-1st Street, S.W. <sup>(1)</sup> Calgary, AB	100%	2001	936,000	100%	TransCanada PipeLines
411-1st Street, S.E. <sup>(2)</sup> Calgary, AB	50%	1981	705,120	100%	Telus Communications, SNC - Lavalin Inc., Bantrel Corp., Public Works of Canada
3777 Kingsway St. Burnaby, BC	100%	1976-1985	686,697	100%	Telus Communications
310-320-330 Front St. W. <sup>(3)</sup> Toronto, ON	100%	1989-1990	593,862	96%	Royal Bank of Canada, National Public Relations
5099 Creekbank Rd. <sup>(1)</sup> Mississauga, ON	100%	2002	525,921	100%	Bell Mobility
100 Wynford Dr. <sup>(1)</sup> Toronto, ON	100%	1970-1997	459,171	100%	Bell Canada
200 Bouchard Boul. <sup>(1)</sup> Dorval, QC	100%	1969-1997	451,899	100%	Bell Canada
25 Sheppard Ave. W. <sup>(3)(4)</sup> Toronto, ON	100%	1994	361,741	100%	Nestle Canada, Transcontinental Media Inc., Public Works Government Services
5025 Creekbank Rd. Mississauga, ON	100%	2009	348,000	100%	Bell Canada
5115 Creekbank Rd. Mississauga, ON	100%	2004	249,118	100%	Bell Mobility
160 McNabb St. Markham, ON	100%	1986	220,000	100%	AC Nielsen Company of Canada
26 Wellington St. E. <sup>(3)(4)(5)</sup> Toronto, ON	98.5%	1981	172,475	100%	Pitney Bowes Mapinfo Canada, United Way, Jovian Capital Corporation
9050 W. Washington Blvd. <sup>(6)</sup> Culver City, CA	100%	1996	172,039	100%	Sony Pictures Entertainment Inc.
55 Yonge St. <sup>(3)</sup> Toronto, ON	100%	1956-1989	163,404	100%	CIBC, TransCanada PipeLines
145 Wellington St. W. <sup>(3)(4)</sup> Toronto, ON	100%	1987	154,527	100%	American International Group, Commerce & Industry Insurance Co. of Canada, Aon Consulting
649 North Service Rd. <sup>(4)</sup> Burlington, ON	100%	1991	123,000	100%	Wescam Inc.
2780-2800 Skymark Ave. <sup>(3)(4)</sup> Mississauga, ON	100%	1988-1990	107,931	78%	CIBC, McDonald's, Firkin Pubs
6900 Maritz Dr. Mississauga, ON	100%	2001	104,689	100%	Maritz Canada Inc.

Office Properties	Ownership Interest	Year Built/ Renovated	Net Rentable Area (Square Feet)	Occupancy	Major Tenants
1235 Bay St. <sup>(4)</sup> Toronto, ON	100%	1973-2000	97,020	97%	Dental Anesthesia Association, The Regus Group, K&S Temporary Medical Services Inc.
2611-3rd Avenue S.E. <sup>(5)</sup> Calgary, AB	50%	1998	95,225	100%	Alta Link LP
9330 Amberton Parkway <sup>(6)</sup> Dallas, TX	100%	1976	92,694	100%	Physerve Physicians Services, Inc.
291-295 The West Mall <sup>(3)</sup> Etobicoke, ON	100%	1978	90,718	89%	The Pace Law Firm, Investors Group Financial Services, The Keg Restaurant
200 Jameson Dr. <sup>(1)</sup> Peterborough, ON	100%	2001	89,405	100%	AmeriCredit
5901 E. Fowler Ave. <sup>(6)</sup> Temple Terrace, FL	100%	1991	85,725	100%	Coca-Cola Enterprises Inc.
69 Yonge St. <sup>(3)(4)</sup> Toronto, ON	100%	1914-1988	80,872	71%	Shoppers Drug Mart, Destech Consulting, Ensemble Travel Ltd.
1 Kenview Blvd. Brampton, ON	100%	1989	79,752	100%	Atlantis Aerospace Corp.
9229 Lyndon B. Johnson Freeway <sup>(6)</sup> Dallas, TX	100%	1978	79,049	100%	Physerve Physicians Services, Inc.
88 McNabb St. <sup>(3)</sup> Markham, ON	100%	1987	75,433	100%	Johnson & Johnson
1618 Station St. Vancouver, BC	100%	2001-2002	73,197	100%	Angiotech Pharmaceuticals Inc.
3625 Dufferin St. <sup>(3)(4)</sup> North York, ON	100%	1965-1985	70,804	100%	H&R Property Management Ltd.
2767-2nd Avenue Calgary, AB	100%	1998	69,630	100%	DeVry Inc.
136 Charlotte St. Sydney, NS	100%	1989	69,500	100%	Province of Nova Scotia
15 Dorchester St. <sup>(4)</sup> Sydney, NS	100%	1987	55,180	100%	Public Works of Canada, MGM & Associates, Canadian Imperial Bank of Commerce
131 McNabb St. Markham, ON	100%	1989	54,100	100%	Drug Trading Company Ltd.
<b>Total</b>			<b>8,782,587</b>	<b>99%</b>	
<b>REIT Total<sup>(7)(8)</sup></b>			<b>8,379,827</b>		

## Notes:

- (1) 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.
- (2) This property is held through TT Portfolio LP, which is a limited partnership governed by the laws of the Province of Alberta. 50% of TT Portfolio LP is owned by a party not related to the REIT or the H&R Group and 50% is owned by the REIT. The limited partnership agreement relating to the property contains certain disposition and purchase rights in favour of the co-owners, including a right of first refusal, shotgun rights and rights of purchase in the event of certain defaults.
- (3) Partially held through HRLP.
- (4) These properties are held as security for an operating/acquisition facility of approximately \$295,300,000 with a Canadian chartered bank and subject to a floating charge, and/or a first fixed charge, in favour of such bank.
- (5) The co-owners agreement relating to this property contains certain disposition and purchase rights in favour of the co-owners, including rights of first offer, certain put and call rights, rights of first refusal, rights of purchase in the event of certain defaults and shotgun rights, as applicable. The co-owners are not related to the REIT or the H&R Group.
- (6) Legal title to each of the U.S. 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 does not prevent distributions to the entity owners provided there are no conditions of default.

(7) After giving effect to the actual percentage ownership interest of the REIT in the properties.

(8) Subsequent to December 31, 2010, the REIT entered into an agreement to purchase 595 Bay Street, 20 & 40 Dundas Street West and 306 Yonge Street in Toronto, Ontario which are collectively known as the "Atrium on Bay" property. The closing of the acquisition is scheduled for the first quarter of 2011. The REIT's anticipated ownership interest would be 100% and the buildings were completed in 1985, have an aggregate net rentable area of 1,031,307 square feet, a 98% occupancy as at the date of closing and with major tenants of CIBC, Legal Aid Ontario, The Office of the Public Guardian and Trustee (Ontario) and the Ontario Land Registry Office. See "General Development of the Business of the REIT".

## Description of the Industrial Properties

<b>Industrial Properties</b> <sup>(1)</sup>	<b>Ownership Interest</b>	<b>Year Built/ Renovated</b>	<b>Net Rentable Area (Square Feet)</b>	<b>Occupancy</b>	<b>Major Tenants</b>
8550 Goreway Dr. Brampton, ON	100%	1989-1992	1,148,972	100%	Canadian Tire Corporation Ltd.
6336-114th Avenue S.E. Calgary, AB	100%	2000-2005	954,813	100%	Canadian Tire Corporation Ltd.
1915-B Fairview Dr. <sup>(2)</sup> DeKalb, IL	100%	1993	860,939	100%	Nestle USA, Inc.
170 Butts St. <sup>(2)</sup> South Hill, VA	100%	1998-2001	817,000	100%	Jones Apparel Group Inc.
One Nestle Crt. <sup>(2)</sup> McDonough, GA	100%	1993	782,565	100%	Nestle USA, Inc.
2300 Rue Senkus LaSalle, QC	100%	1972	742,000	100%	Owens-Illinois Canada Corp.
100 Metropolitan Rd. Toronto, ON	100%	1975-1990	738,102	100%	Hudson's Bay Company
220 Chemin du Tremblay Boucherville, QC	100%	1999	727,966	100%	Rona Inc.
1400 Church St. S. Pickering, ON	100%	2004-2005	716,261	100%	Harmony Logistics Canada Inc.
12090 Sage Point Crt. <sup>(2)</sup> Reno, NV	100%	1997	690,000	100%	Sherwin Williams
260 Jordan Rd. <sup>(2)</sup> Tifton, GA	100%	1996-2003	676,031	100%	Orgill Distribution Company
13600 Independence Pkwy. <sup>(2)</sup> Fort Worth, TX	100%	1993	524,252	100%	Nestle USA, Inc.
55 West Dr. <sup>(3)</sup> Brampton, ON	100%	1969-1981	505,565	100%	Winners Apparel Ltd.
950 Stelzer Rd. <sup>(2)</sup> Columbus, OH	100%	1966-2004	480,762	100%	Dr. Pepper/7Up Bottling Group
1880 Matheson Blvd. E. Mississauga, ON	100%	2003	389,313	100%	Ceva Freight Canada Corp, (Canada), SDR Apparel Inc.
930 Sherwin Pkwy. <sup>(2)</sup> Buford, GA	100%	2003	358,771	100%	Sherwin Williams
500 Palladium Dr. Kanata, ON	100%	2000-2001	329,612	100%	Breconridge Manufacturing Solutions Corporation
4441-76 <sup>th</sup> Street <sup>(4)</sup> Calgary, AB	100%	1980-1991	323,796	97%	Lynden International Logistics Co., Cascades Tissue Group Inc.
137 Horner Ave. Etobicoke, ON	100%	1962	320,000	55%	Associate Brands LP, Wilson Truck Lines Limited
2121 Cornwall Rd. <sup>(5)</sup> Oakville, ON	100%	1997-1998	314,166	100%	UPS Logistics Group Canada

<b>Industrial Properties</b> <sup>(1)</sup>	<b>Ownership Interest</b>	<b>Year Built/ Renovated</b>	<b>Net Rentable Area (Square Feet)</b>	<b>Occupancy</b>	<b>Major Tenants</b>
1600 Lionel Boulet Varennes, QC	100%	1971	311,103	100%	Asea Brown Boveri Inc.
7830 Tranmere Dr. Mississauga, ON	100%	1985-1987	265,469	100%	Paperboard Industries Corporation
1595 North Service Rd. Oakville, ON	100%	2002	254,891	100%	UPS SCS Inc.
1 Chandaria Pl. <sup>(3)</sup> Kitchener, ON	100%	1967	254,719	100%	Truserv Canada Co-Operators Inc.
590 Nash Road, N Hamilton, ON	100%	1956 1992	227,701	100%	Versacold Logistics Canada
901 Guelph Line <sup>(3)</sup> Burlington, ON	100%	1955	227,444	100%	International Truck and Engine Corporation
1801 Blairtown Rd. <sup>(2)</sup> Rock Springs, WY	100%	2004	226,639	100%	Halliburton Energy Services
475 Admiral Blvd. Mississauga, ON	100%	1994-1999	219,886	100%	Arvin Meritor, National Logistics Services
2695 Meadowvale Blvd. Mississauga, ON	100%	1999-2003	219,220	34%	The Logistics Alliance Inc.
5105 Fisher St. Montreal, QC	100%	1965-1969	211,858	100%	Versacold Logistics Canada
6100 Chemin Cote de Liesse Montreal, QC	100%	1998-2002	203,365	100%	Versacold Logistics Canada
1616 Rue Eiffel Boucherville, QC	100%	1989- 2001	186,793	100%	Corporate Express Canada Inc.
1377 The Queensway Toronto, ON	100%	1955-1972	184,898	100%	Versacold Logistics Canada
30 Aero Dr. Calgary, AB	100%	2001	184,377	100%	Purolator Courier Limited
3900 Gantz Rd. <sup>(2)(12)</sup> Grove City, OH	100%	1992	172,300	100%	Borders, Inc.
189 Queen St. N. <sup>(8)</sup> Tilbury, ON	100%	1983	170,136	100%	Automotive Industry
316 Aviva Park Dr. Toronto, ON	100%	1977-2002	168,091	100%	Versacold Logistics Canada
650 Cataraqi Woods Dr. <sup>(3)</sup> Kingston, ON	100%	1988-2003	165,916	100%	Sysco Food Services of Canada, Inc.
7575 Brewster Ave. <sup>(2)</sup> Philadelphia, PA	100%	1981	164,150	100%	Georgia Pacific Corporation
6735-11 <sup>th</sup> St., N.E. Calgary, AB	100%	1979	163,899	100%	Finning International Inc.
2928-16 <sup>th</sup> St., N.E. Calgary, AB	100%	1981-1994	163,280	100%	Nova Chemicals Corporation
1330 Martin Grove Rd. <sup>(3)</sup> Mississauga, ON	100%	1972-2000	162,775	100%	2072013 Ontario Inc. and Paramount Pallet, Inc.
351 Passmore Ave. Scarborough, ON	100%	1986-1997	161,137	100%	Samuel, Son & Company Limited
10910-170th St., N.W. Edmonton, AB	100%	1977-1999	154,721	100%	Finning International Inc.
1035 Wilton Grove Rd. London, ON	100%	1967-1980	148,467	100%	Versacold Logistics Canada
5555-78 <sup>th</sup> Ave. S.E. Calgary, AB	100%	1996-2002	148,132	100%	Versacold Logistics Canada
11 Cermak Blvd. <sup>(2)</sup> St. Peters, MO	100%	1987	142,000	100%	Automotive Industry

<b>Industrial Properties</b> <sup>(1)</sup>	<b>Ownership Interest</b>	<b>Year Built/ Renovated</b>	<b>Net Rentable Area (Square Feet)</b>	<b>Occupancy</b>	<b>Major Tenants</b>
20600 Rue Clark-Graham Montreal, QC	100%	2003	140,000	100%	Warnaco of Canada
11 Kenview Blvd. Brampton, ON	100%	1989	139,548	100%	General Paint Corp.
1, 4 & 8 Prince Andrew Pl. Toronto, ON	100%	1966-1985	139,520	100%	Symcor Inc.
20 Pettipas Dr. Halifax, NS	100%	1972-1975	138,546	100%	Versacold Logistics Canada
400 Traders Blvd. E. Mississauga, ON	100%	1985-1999	126,790	100%	Amhil Enterprises Ltd.
5550 Skyline Way Calgary, AB	100%	1984	124,805	100%	Hunting Oilfield Services (Canada) Ltd.
510 East Courtland St. <sup>(2)</sup> Morton, IL	100%	2000	123,090	100%	Georgia Pacific Corporation
17718-114th Avenue Edmonton, AB	100%	2000	121,315	100%	Purolator Courier Limited
7000 Rue Armand Quebec City, QC	100%	2000	120,584	100%	Purolator Courier Limited
300 Humber College Blvd. Etobicoke, ON	100%	2005	114,316	100%	Give and Go Prepared Foods Corp.
19100-94th Ave Surrey, BC	100%	1998-2001	112,819	100%	Finning International Inc.
525 Boxwood Dr. Cambridge, ON	100%	2003	111,996	100%	United Auto Parts Inc.
200 Rock Run Rd. <sup>(2)</sup> Fairless Hills, PA	100%	1979	108,225	100%	Automotive Industry
1 Duck Pond Rd. <sup>(3)</sup> Lakeside, NS	100%	1968-2000	105,975	100%	Sysco Food Services of Canada, Inc.
15573 Oakwood Dr. <sup>(2)</sup> Romulus, MI	100%	1998	100,475	100%	Automotive Industry
6740 Campobello Rd. <sup>(6)</sup> Mississauga, ON	100%	1980-1985	94,700	100%	Maxxam Analytics
9300 Airport Rd. Hamilton, ON	100%	2000	93,357	100%	Purolator Courier Limited
200 Chisholm Dr. Milton, ON	100%	1991	91,828	100%	Asea Brown Boveri Inc.
1550 Creditstone Rd. Vaughan, ON	100%	2000	88,584	100%	Purolator Courier Limited
1588 Cliveden Ave. Vancouver, BC	100%	1999	87,388	100%	Versacold Logistics Canada
11 Simmonds Dr. Halifax, NS	100%	1981	86,900	100%	Versacold Logistics Canada
827 Graham Rd. <sup>(2)</sup> Fremont, OH	100%	1994	86,404	100%	Automotive Industry
2600 Meadowvale Rd. Mississauga, ON	100%	2000	84,486	100%	Purolator Courier Limited
10300 Rue Henri Bourassa St. Laurent, QC	100%	1976-1989	81,500	100%	Asea Brown Boveri Inc.
10 Old Placentia Rd. <sup>(3)</sup> Mount Pearl, NL	100%	1989- 2003	80,730	100%	Sysco Food Services of Canada, Inc.
2 East Beaver Creek Rd. <sup>(7)</sup> Richmond Hill, ON	100%	1988	79,024	100%	Country Style, Acura Technology
1999 Forbes St. <sup>(5)</sup> Whitby, ON	100%	1987	78,485	100%	Automotive Industry

<b>Industrial Properties</b> <sup>(1)</sup>	<b>Ownership Interest</b>	<b>Year Built/ Renovated</b>	<b>Net Rentable Area (Square Feet)</b>	<b>Occupancy</b>	<b>Major Tenants</b>
19572-94 <sup>th</sup> Ave. Vancouver, BC	100%	1994-1998	78,479	100%	Versacold Logistics Canada
460 MacNaughton Ave. Moncton, NB <sup>(3)</sup>	100%	1979-1995	76,303	100%	Sysco Food Services of Canada, Inc.
738 Polymoore Dr. Corunna, ON <sup>(5)</sup>	100%	1999	76,136	100%	Automotive Industry
10430-178th St., N.W. Edmonton, AB	100%	1979	70,676	100%	Finning International Inc.
940 Gateway Dr. Burlington, ON	100%	1982	70,218	100%	Hutton White Radio Inc.
180 Market Dr. Milton, ON	100%	1979	69,000	100%	Northstar Aerospace Canada Inc.
6315 Kenway Dr. Mississauga, ON <sup>(3)</sup>	100%	1999	68,678	100%	Katoen Natie Canada Company
John G. Diefenbaker Airport Saskatoon, SK	100%	2001	66,355	100%	Purolator Courier Limited
118 MacDonald Cres. Fort McMurray, AB	100%	1977	65,169	100%	Finning International Inc.
3620-32 <sup>nd</sup> St., N.E. Calgary, AB	100%	1983-1998	65,120	100%	Nova Chemicals Corporation
1764 & 1776 Kelly Douglas Rd. Kamloops, BC	100%	1965-1989	64,271	100%	Finning International Inc.
611 Ferdinand Blvd. Dieppe, NB <sup>(3)</sup>	100%	1997	63,053	100%	Sysco Food Services of Canada, Inc.
9201 Rue de l'Innovation Anjou, QC	100%	2000	62,691	100%	Purolator Courier Limited
6520 Kestrel Rd. Mississauga, ON	100%	2000	62,217	100%	Purolator Courier Limited
2005 Boul. Dagenais Laval, QC	100%	2000	62,217	100%	Purolator Courier Limited
550 York Rd. Niagara-on-the-Lake, ON	100%	2000	62,185	100%	Purolator Courier Limited
3104-97 <sup>th</sup> St. Edmonton, AB	100%	2000	62,169	100%	Purolator Courier Limited
880 Milner Ave. Scarborough, ON <sup>(8)</sup>	70%	1990	60,028	49%	House of Electric Supplies Limited
2860 Plymouth Dr. Oakville, ON <sup>(3)</sup>	100%	1989	59,396	100%	Kraft Canada Inc.
51 Kelfield St. Toronto, ON	100%	2005	57,976	100%	Dominion Citrus Limited
1 Moyal Ct. Vaughan, ON <sup>(3)(7)</sup>	100%	1991	52,792	100%	Kinecor Inc.
96 Glencoe Dr. St. John's, NL	100%	1981	49,177	100%	Versacold Logistics Canada
115 Belfield Rd. Toronto, ON	100%	1968-1980	47,990	100%	Wentworth Technologies
Industrial Park W. Peace River, AB	100%	1970	44,668	100%	Finning International Inc.
72 Plant Farm Blvd. Brantford, ON	100%	1990-2001	44,500	100%	Stone Straw Ltd.
5321-11 <sup>th</sup> St., N.E. Calgary, AB <sup>(3)</sup>	100%	1991	43,000	100%	Olympic Seismic Ltd.
360 Spinnaker Way Vaughan, ON <sup>(7)(8)(9)</sup>	75%	1995	41,944	100%	The Packaging Group

<b>Industrial Properties</b> <sup>(1)</sup>	<b>Ownership Interest</b>	<b>Year Built/ Renovated</b>	<b>Net Rentable Area (Square Feet)</b>	<b>Occupancy</b>	<b>Major Tenants</b>
2815 Matheson Blvd. E. <sup>(7)(8)(10)</sup> Mississauga, ON	94%	1987	40,000	100%	ADT Security Services
2021-41 <sup>st</sup> Ave. N.E. & 4000-19 <sup>th</sup> St. N.E. Calgary, AB	100%	1975	39,272	100%	Maxxam Analytics Inc.
380 Spinnaker Way <sup>(7)(8)(9)</sup> Vaughan, ON	75%	1995	33,017	100%	Topax Export Packaging
4248-14 <sup>th</sup> Ave. <sup>(7)</sup> Markham, ON	100%	1994	32,708	100%	Linsey Foods Limited
749 Douglas Fir Rd. Sparwood, BC	100%	1978	31,784	100%	Finning International Inc.
6740-67 <sup>th</sup> Ave. Red Deer, AB	100%	1975	30,655	100%	Finning International Inc.
1604 & 1720 Willow St. Campbell River, BC	100%	1980	30,000	100%	Finning International Inc.
9331 48 <sup>th</sup> Street Edmonton, AB	100%	1983	29,832	100%	Maxxam Analytics Inc.
19498-92nd Ave. Surrey, BC	100%	1992	28,621	100%	Finning International Inc.
45 Bodrington Ct. <sup>(3)(7)</sup> Markham, ON	100%	1992	28,089	100%	Canada Bread Company Limited
450 Mackenzie Ave. & 265 Fifth Ave. S. Williams Lake, BC	100%	1959-1978	27,321	100%	Finning International Inc.
2400 Matheson Blvd. E. <sup>(7)</sup> Mississauga, ON	100%	1993	25,273	100%	Givaudan Canada Co.
5230 Orbitor Dr. <sup>(3)(7)</sup> Mississauga, ON	100%	1994	22,000	100%	William Knapp Limited
Mile 49.5 Alaska Hwy. Fort St. John, BC	100%	1979	21,259	100%	Finning International Inc.
4750-101 Street N.W. Edmonton, AB	100%	1978	20,457	100%	Finning International Inc.
700 Vanalman Ave. Victoria, BC	100%	1990	14,411	100%	Finning International Inc.
R.R. #1, Mile 295, 2600 Alaska Hwy. Fort Nelson, BC	100%	1980	12,399	100%	Finning International Inc.
<b>Subtotal</b>			<b>22,639,149</b>	<b>98%</b>	
<b>REIT Subtotal</b> <sup>(11)</sup>			<b>22,600,000</b>		

## Notes:

- (1) Some of the leases of the REIT's industrial properties contain options to purchase and/or rights of first refusal in favour of the tenants, and some properties contain excess land for future development, each as are typical with industrial properties.
- (2) Legal title to each of the U.S. 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 does not prevent distributions to the entity owners provided there are no conditions of default.
- (3) These properties are held as security for an operating/acquisition facility of approximately \$295,300,000 with a Canadian chartered bank and subject to a floating charge, and/or a first fixed charge, in favour of such bank.
- (4) This property comprises two single-storey buildings.
- (5) Wholly owned through HRLP.
- (6) Debt related to the property is held by a separate legal entity, 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.
- (7) Partially held through HRLP.
- (8) The co-owners agreement relating to this property contains certain disposition and purchase rights in favour of the co-owners, including a right of first refusal, rights of first offer, shotgun or put and call rights and rights of purchase in the event of certain defaults, as applicable.

- (9) This property is 75% owned by the REIT, 5% of which is held through HRLP.  
(10) This property is 94% owned by the REIT, 24% of which is held through HRLP.  
(11) After giving effect to the actual percentage ownership interest of the REIT in the properties.  
(12) Borders Inc. filed for protection under Chapter 11 of the United States Bankruptcy Code on February 16, 2011.

### Description of the Retail Properties

Retail Properties <sup>(1)</sup>	Ownership Interest	Year Built/ Renovated	Net Rentable Area (Square Feet)	Occupancy	Major Tenants
14111-14300 Entertainment Blvd. & 14140 Triangle Road Richmond, BC	100%	1994-1997	314,033	100%	Famous Players, City of Richmond
NorthPointe Towne Centre Calgary, AB	100%	2000	199,502	100%	Famous Players, Canadian Tire
7500 Lundy's Lane <sup>(2)</sup> Niagara Falls, ON	100%	1999-2001	172,800	99%	Tommy Hilfiger, Levi's, Roots Canada, Nike, Danier Leather, Coach Stores Canada Inc.
10450-42nd Ave. Edmonton, AB	100%	1993	150,457	100%	Rona Revy Inc.
615 George Wallace Dr. <sup>(3)</sup> Gadsden, AL	100%	2002	146,730	100%	Lowe's Companies, Inc.
1701 Frederick Rd. <sup>(3)</sup> Opelika, AL	100%	1999	135,197	100%	Lowe's Companies, Inc.
2301 Woodmont St. <sup>(3)</sup> Columbus, MS	100%	2001	135,197	100%	Lowe's Companies Inc.
3505 North Memorial Pkwy. <sup>(3)</sup> Huntsville, AL	100%	2002	135,039	100%	Lowe's Companies Inc.
575 Molly Lane <sup>(3)</sup> Woodstock, GA	100%	1997	132,847	100%	Lowe's Companies, Inc.
733 Pleasant Hill Rd. <sup>(3)</sup> Lilburn, GA	100%	1997	132,847	100%	Lowe's Companies, Inc.
2650 Dallas Hwy. <sup>(3)</sup> Marietta, GA	100%	1997	132,847	100%	Lowe's Companies, Inc.
8199 Pearl Rd. <sup>(3)</sup> Strongsville, OH	100%	1997	132,448	100%	Home Depot
2495 Gulf To Bay Blvd. <sup>(3)</sup> Clearwater, FL	100%	1997	131,946	100%	Home Depot
200 Weis Lane off Susquehanna Blvd. <sup>(3)</sup> West Hazelton, PA	100%	1997	131,575	100%	Lowe's Companies, Inc.
2343 Princess St. Kingston, ON	100%	2003	129,181	100%	Rona Inc.
10580 Duke Dr. <sup>(3)</sup> Alpharetta, GA	100%	1998	129,044	100%	Lowe's Companies, Inc.
4855 Stone Mountain Hwy. <sup>(3)</sup> Lilburn, GA	100%	1999	128,997	100%	Lowe's Companies, Inc.
1 Boul. Bouthillier Rosemère, QC	100%	1998	124,851	100%	Rona Inc.
225 Joseph-Casavant Ave. Beauport, QC	100%	1990	124,182	100%	Rona Inc.
775 Panet Rd. Winnipeg, MB	100%	1997	121,962	100%	Rona Revy, Inc.
1929 NE Pine Island Rd. <sup>(3)</sup> Cape Coral, FL	100%	2005	119,598	100%	BJ's Wholesale Club
1880 Innes Rd. Ottawa, ON	100%	1999	118,526	100%	Rona Inc.

<b>Retail Properties</b> <sup>(1)</sup>	<b>Ownership Interest</b>	<b>Year Built/ Renovated</b>	<b>Net Rentable Area (Square Feet)</b>	<b>Occupancy</b>	<b>Major Tenants</b>
5035 Boul. Cousineau St-Hubert, QC	100%	1996	117,765	100%	Rona Inc.
6344 Cash Crt. <sup>(3)</sup> Norcross, GA	100%	2004	115,367	100%	BJ's Wholesale Club
7277 Rue St-Jacques Montréal, QC	100%	2000	110,004	100%	Rona Inc.
38292 Colorado Ave. <sup>(3)</sup> Avon, OH	100%	1999	108,532	100%	BJ's Wholesale Club
1677 Home Ave. <sup>(3)</sup> Akron, OH	100%	1998	108,510	100%	BJ's Wholesale Club
3712 Call Field Rd. <sup>(3)</sup> Wichita Falls, TX	100%	1992	108,178	100%	Kohl's
5555 South Buckner Blvd. <sup>(3)</sup> Dallas, TX	100%	1991-1997	107,927	100%	Sam's Club
730 Ottawa St. S. Kitchener, ON	100%	2004	105,978	100%	Rona Inc.
275 Boul. Rideau Rouyn-Noranda, QC	20%	1996-1998	104,222	100%	Wal-Mart
1550 & 1580 Cameron St. Hawkesbury, ON	100%	1997	103,596	100%	Zellers Inc., McDonalds
7350 Catherine St. Windsor, ON	100%	2002	102,997	100%	Rona Inc.
1020 Dawson Rd. Thunder Bay, ON	100%	1969	98,847	100%	Zellers Inc.
711 Creek View Dr. <sup>(3)</sup> Columbus, IN	100%	1994	95,120	100%	Lowe's Companies, Inc.
7919 Day Drive, Parma Cuyahoga, OH	100%	2008	92,634	100%	Giant Eagle
2665-32nd St. N.E. Calgary, AB	100%	1998	89,438	100%	Rona Revy Inc.
914 East North Ave. <sup>(3)</sup> Belton, MO	100%	2004	88,248	100%	Kohl's
1333 Sargent Ave. Winnipeg, MB	100%	1998	87,769	100%	Rona Revy Inc.
Interstate 640 at Washington Pike <sup>(3)</sup> Knoxville, TN	100%	1997	86,584	100%	Kohl's
115-118 Wilmar Avenue Grand Island, NE	100%	2008	83,331	100%	Hy-Vee
2140 E. 116th St. <sup>(3)</sup> Carmel, IN	100%	1998	81,013	100%	Marsh Supermarkets
8766 E. 96th St. <sup>(3)</sup> Fishers, IN	100%	1994	80,978	100%	Marsh Supermarkets
1058-1100 10th St. Hanover, ON	100%	2001	78,114	100%	Wal-Mart
590-640 River St. Thunder Bay, ON	100%	1965-2000	77,064	100%	Metro Ontario Inc., Shoppers Drug Mart
2951 SW Wanamaker Rd. Topeka, KS	100%	2008	75,149	100%	Hy-Vee
205 West Ave. <sup>(3)</sup> Tallmadge, OH	100%	1970-2000	70,046	100%	Giant Eagle
50 Cambridge Street Worcester, MA	100%	2002	69,020	100%	Price Choppers
1510 South Main Avenue Taylor, PA	100%	2000	68,894	100%	Price Choppers
9400E 350 Highway Raytown, MO	100%	1990	66,900	100%	Hy-Vee

<b>Retail Properties</b> <sup>(1)</sup>	<b>Ownership Interest</b>	<b>Year Built/ Renovated</b>	<b>Net Rentable Area (Square Feet)</b>	<b>Occupancy</b>	<b>Major Tenants</b>
124 & 128 Boston Post Rd. <sup>(3)</sup> Waterford, CT	100%	1996	65,506	100%	Shaw's
10679 N. Michigan Rd. <sup>(3)</sup> Zionsville, IN	100%	1999	64,862	100%	Marsh Supermarkets
245 Wilkes Barre Blvd. Wilkes Barre, PA	100%	2008	64,252	100%	Price Choppers
715 S. Tillotson <sup>(3)</sup> Muncie, IN	100%	1995	63,815	100%	Marsh Supermarkets
8150 Rockville Rd. <sup>(3)</sup> Indianapolis, IN	100%	1995	61,614	100%	Kroger
9950 Berberich Dr. <sup>(3)</sup> Florence, KY	100%	1997	60,835	100%	Winn Dixie Stores Inc.
1013 Forest Ave. <sup>(3)</sup> Marion, IN	100%	1960	60,097	100%	Marsh Supermarkets
717 Clearview Pkwy. <sup>(3)</sup> Metairie, LA	100%	1996	59,581	100%	Rouse's Supermarkets
4478 Market St. <sup>(3)</sup> Marianna, FL	100%	1997	58,100	100%	Winn Dixie Stores Inc.
11625 Fox Rd. <sup>(3)</sup> Indianapolis, IN	100%	1988	56,273	100%	Marsh Supermarkets
1825 Kinser Pike <sup>(3)</sup> Bloomington, IN	100%	1993	54,181	100%	Marsh Supermarkets
7350 Middlebelt Rd. <sup>(3)</sup> Westland, MI	100%	2001	53,773	100%	Kroger Co.
2900 Veterans Hwy <sup>(3)</sup> Metairie, LA	100%	1992	52,848	100%	Rouse's Supermarkets
4610 Ontario St. Beamsville, ON	100%	2003-2005	50,836	96%	Sobey's, TD Canada Trust
15 & 35 Alkenbrack St. <sup>(2)</sup> Napanee, ON	100%	1999-2000	49,717	100%	Metro Ontario Inc., Bank of Nova Scotia
6951 Lee Hwy. <sup>(3)</sup> Chattanooga, TN	100%	1980-1996	48,261	100%	Bi-Lo Grocery Store
231-247 Mill St. Angus, ON	100%	2001	47,503	100%	Sobey's, Shoppers Drug Mart
3015 West US 36 <sup>(3)</sup> Pendleton, IN	100%	2004	47,370	100%	Marsh Supermarkets
205 Oakbrook Dr. <sup>(3)</sup> Mt. Washington, KY	100%	1998	47,311	100%	Associated Wholesale Group
420 Market St. <sup>(3)</sup> Dayton, TN	100%	1999	45,983	100%	Bi-Lo Grocery Store
315 Grand River St. N. Paris, ON	100%	2000-2001	45,711	100%	Sobey's
2080 Jans Blvd. Innisfil, ON	100%	2002-2010	43,816	100%	Sobey's
5428 Dogwood Dr. <sup>(3)</sup> Milton, FL	100%	1984-1996	43,750	100%	Winn Dixie Stores Inc.
1800-1812 LaSalle Blvd. Sudbury, ON	100%	1975	42,302	100%	Metro Ontario Inc.
812, 814 & 818 Durham St. Kincardine, ON	100%	2000	42,132	100%	Sobey's
140 Algonquin Blvd. W. Timmins, ON	100%	1985-2002	40,640	100%	Metro Ontario Inc.
61 <sup>st</sup> Ave. & Barlow Trail S.E. Calgary, AB	100%	1998-1999	40,480	100%	Business Depot
191 Indian Rd. S. Sarnia, ON	100%	2002-2003	40,464	100%	Metro Ontario Inc.

<b>Retail Properties</b> <sup>(1)</sup>	<b>Ownership Interest</b>	<b>Year Built/ Renovated</b>	<b>Net Rentable Area (Square Feet)</b>	<b>Occupancy</b>	<b>Major Tenants</b>
9320 Hwy 93 Midland, ON	100%	1976-2003	40,000	100%	Rona Inc.
2940 N. Broadway <sup>(3)</sup> Anderson, IN	100%	1988	39,742	100%	Marsh Supermarkets
640 First St. Extension <sup>(2)</sup> Collingwood, ON	100%	2000	38,000	100%	Metro Ontario Inc.
342 Blue Ridge St. <sup>(3)</sup> Blairsville, GA	100%	2001	36,524	100%	Bi-Lo Grocery Store
Sunridge Plaza Calgary, AB	100%	2000	35,332	100%	Mark's Work Warehouse, CIBC
20210 Communication Rd. Blenheim, ON	100%	2002	35,076	100%	Sobey's
505 Arthur St. W. Thunder Bay, ON	100%	1965-2001	34,713	100%	Metro Ontario Inc.
819 West Carolina Ave. <sup>(3)</sup> Hartsville, SC	100%	1989-1999	32,998	100%	Bi-Lo Grocery Store
560 Exmouth St. Sarnia, ON	100%	1955-1985	32,214	100%	Metro Ontario Inc.
1012 Broad St. E. Dunnville, ON	100%	2001	30,320	100%	Sobey's
110 Highway 20 E. Pelham, ON	100%	2001	30,067	100%	Sobey's
14 Main St. Brighton, ON	100%	2002	29,730	100%	Sobey's
8754 Highway 60 <sup>(2)</sup> Eganville, ON	100%	2001	25,296	100%	IGA
2615 County Rd. 43 (Hwy. 43) Kemptville, ON	100%	2005	25,127	100%	Metro Ontario Inc.
State Bridge & Morton Rd. <sup>(3)</sup> Alpharetta, GA	100%	2003	18,529	100%	Shell Oil Products
2755 Laurier St. Rockland, ON	100%	2006	16,890	100%	Shoppers Drug Mart
46651 & 46655 Algonkian Pkwy. <sup>(3)</sup> Sterling, VA	100%	2002	16,838	100%	Shell Oil Products
901 Supermall Rd. <sup>(3)</sup> Auburn, WA	100%	2001	16,465	100%	Shell, Great American LLC
4845 & 4865 Alabama Rd. N.W. <sup>(3)</sup> Roswell, GA	100%	2002	16,406	100%	Shell Oil Products
902 Mohawk Rd. E. Hamilton, ON	100%	2004	15,847	100%	Shoppers Drug Mart
593 Summit Blvd. <sup>(3)</sup> Broomfield, CO	100%	2000	15,732	100%	Shell, Great American LLC
1546 E. Ray Rd. <sup>(3)</sup> Gilbert, AZ	100%	2002	14,916	100%	Shell, Great American LLC
110 SSW Loop 323 Tyler, Smith County, TX	100%	2008	14,820	100%	Walgreens Company
400 E FM 2410 Rd. Harker Heights, TX	100%	2007	14,731	100%	Walgreens Company
SE corner of Washington Rd., & Harrison Rd. <sup>(3)</sup> Thompson, GA	100%	2008	14,550	100%	Walgreens Company
1220 W. University Ave. Georgetown, TX	100%	2009	14,545	100%	Walgreens Company
4746 Twin City Highway, Groves, TX	100%	2007	14,538	100%	Walgreens Company

<b>Retail Properties</b> <sup>(1)</sup>	<b>Ownership Interest</b>	<b>Year Built/ Renovated</b>	<b>Net Rentable Area (Square Feet)</b>	<b>Occupancy</b>	<b>Major Tenants</b>
22994 East Smoky Hill Rd. <sup>(3)</sup> Aurora, CO	100%	2000	14,533	100%	Shell, Great American LLC
1790 Texas Ave. Bridge City, TX	100%	2008	14,513	100%	Walgreens Company
3822 Old Spanish Trail, Houston, TX	100%	2007	14,490	100%	Walgreens Company
1225 East Ridge Rd. <sup>(3)</sup> Griffith, IN	100%	1997	13,905	100%	Walgreens Company
42285 & 44245 Farmwell Rd. <sup>(3)</sup> Ashburn, VA	100%	2005	13,815	100%	Shell Oil Products
101 S. Washington Ave. Cleveland, TX	100%	2008	13,805	100%	Walgreens Company
3332 Arapahoe Rd. <sup>(3)</sup> Erie, CO	100%	1999	13,713	100%	Shell, Great American LLC
7520 Village Square Dr. <sup>(3)</sup> Castle Rock, CO	100%	2000	13,713	100%	Shell, Great American LLC
Highway 20 & Samples Rd. <sup>(3)</sup> Cumming, GA	100%	2003	13,597	100%	Shell Oil Products
1947 & 1959 South Greenfield Rd. <sup>(3)</sup> Mesa, AZ	100%	2004	13,498	100%	Shell Oil Products
4901 & 4951 W. Eldorado Pkwy. <sup>(3)</sup> McKinney, TX	100%	2002	13,404	100%	Shell Oil Products
16542 Keystone Blvd. <sup>(3)</sup> Parker, CO	100%	1999	13,368	100%	Shell, Great American LLC
111 Clarence Street Port Colborne, ON	100%	1960 1963	12,180	89%	Shoppers Drug Mart
83rd Ave. & Thunderbird Rd. <sup>(3)</sup> Peoria, AZ	100%	2002	11,811	100%	Shell Oil Products
7112 Hwy 98 <sup>(3)</sup> Panama City, FL	100%	1997	11,200	100%	CVS Pharmacy, Inc.
1347 West 15th St. <sup>(3)</sup> Panama City, FL	100%	1997	11,200	100%	CVS Pharmacy, Inc.
6217 Silver Star Rd. <sup>(3)</sup> Orlando, FL	100%	1997	11,200	100%	CVS Pharmacy, Inc.
302 N. Tyndall Pkwy. <sup>(3)</sup> Callaway, FL	100%	1997	11,200	100%	CVS Pharmacy, Inc.
2701 Dick Pond <sup>(3)</sup> Surfside Beach, SC	100%	1997	10,908	100%	Eckerd Corporation
800 North Glynn St. <sup>(3)</sup> Fayetteville, GA	100%	2000	10,908	100%	Eckerd Corporation
502 37th Ave. S.E. <sup>(3)</sup> Puyallup, WA	100%	2004	10,102	100%	Shell Oil Products
6330 State Rd. 7 <sup>(3)</sup> Coconut Creek, FL	100%	2006	9,553	100%	Shell Oil Products
3990 Red Cedar Dr. <sup>(3)</sup> Highlands Ranch, CO	100%	2004	9,332	100%	Shell Oil Products
17 Alkenbrack St. <sup>(2)</sup> Napancee, ON	100%	2002-2003	3,399	100%	Wendy's Restaurant
<b>Subtotal</b> <sup>(4)</sup>			<b>8,173,337</b>	<b>99%</b>	
<b>REIT Subtotal</b> <sup>(4)(5)</sup>			<b>8,089,959</b>		
200 Monroeville Mall <sup>(3)(6)</sup> Monroeville, PA	100%	1969-1987	263,700	0%	–
500 Montgomery Mall <sup>(3)(6)</sup> North Wales, PA	100%	1976-1996	182,541	0%	–

<b>Retail Properties</b> <sup>(1)</sup>	<b>Ownership Interest</b>	<b>Year Built/ Renovated</b>	<b>Net Rentable Area (Square Feet)</b>	<b>Occupancy</b>	<b>Major Tenants</b>
2300 East Lincoln Hwy. <sup>(3)(6)</sup> Langhorne, PA	100%	1973	181,212	0%	–
29659 Seven Mile Rd. <sup>(3)(8)</sup> Livonia, MI	100%	1994	109,800	0%	–
225 South Canton Centre Road <sup>(3)</sup> Canton, MI	100%	1999	65,729	5%	–
1309 Decatur Hwy. <sup>(3)(7)</sup> Gardendale, AL	100%	1977-1995	60,195	0%	–
3100 East Meighan Blvd. <sup>(3)(7)</sup> East Gasden, AL	100%	1985	45,998	0%	–
<b>Total</b>			<b>9,705,965</b>	<b>84%</b>	
<b>REIT Total</b> <sup>(5)</sup>			<b>9,626,587</b>		

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- (2) These properties are held as security for an operating/acquisition facility of approximately \$295,300,000 with a Canadian chartered bank and subject to a floating charge, and/or a first fixed charge, in favour of such bank.
- (3) Legal title to each of the U.S. 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 does not prevent distributions to the entity owners provided there are no conditions of default.
- (4) Excludes three Boscov's Department Stores, two Bruno's Supermarkets, LLC and two The Great Atlantic & Pacific Tea Company (totalling 1,536,628 square feet), which filed for Chapter 11 protection with a United States bankruptcy court. See also footnotes (6) and (7).
- (5) After giving effect to the actual percentage ownership interest of the REIT in the properties.
- (6) Previously tenanted by Bosco's Department Stores which filed for Chapter 11 protection with a United States bankruptcy court and the REIT has handed over control of these properties to the lenders.
- (7) Previously tenanted by Bruno's Supermarkets, LLC which filed for Chapter 11 protection with a United States bankruptcy court.
- (8) Previously tenanted by The Great Atlantic & Pacific Tea Company which filed for Chapter 11 protection with a United States bankruptcy court.

## Financing

The following table summarizes the mortgages which are in place on the Properties as at December 31, 2010. Where the interest of the REIT is less than 100%, the figures shown represent that portion of the mortgage which is attributable to the REIT:

<b>Office Properties*</b> <sup>(1)</sup>	<b>Balance Outstanding as at December 31, 2010 (in thousands of dollars)</b>	<b>Contractual Interest Rate</b>	<b>Maturity Date</b>	<b>Outstanding Balance at Maturity (in thousands of dollars)</b>
160 Elgin St. <sup>(1)</sup> Ottawa, ON	\$136,707	6.93%	Dec. 2012	\$127,572
450 - 1 <sup>st</sup> Street S.W. <sup>(1)(2)</sup> Calgary, AB	157,003	7.59%	Sept. 2021	0
9330 Amberton Pky. <sup>(2)(3)</sup> Dallas, TX	11,155	5.43%	Dec. 2025	0
9229 Lyndon B. Johnson Fwy, <sup>(2)(3)</sup> Dallas, TX	9,769	5.43%	Dec. 2025	0
411 - 1 <sup>st</sup> Street S.E. <sup>(2)</sup> Calgary, AB	37,993	6.21%	May 2011	37,460
3777 Kingsway St. <sup>(2)</sup> Burnaby, BC	104,645	5.83%	May 2026	38,380
310-320-330 Front St. W. Toronto, ON	32,987 42,614	4.96% 10.75%	Feb. 2013 Feb. 2013	31,163 38,489

<b>Office Properties*</b>	<b>Balance Outstanding as at December 31, 2010 (in thousands of dollars)</b>	<b>Contractual Interest Rate</b>	<b>Maturity Date</b>	<b>Outstanding Balance at Maturity (in thousands of dollars)</b>
5099 Creekbank Rd. <sup>(1)(2)</sup> Mississauga, ON	85,180	7.37%	May 2022	0
100 Wynford Dr. <sup>(1)(2)</sup> Toronto, ON	36,848	6.74%	Feb. 2021	0
200 Bouchard Blvd. <sup>(1)(2)</sup> Dorval, QC	32,676	6.74%	Feb. 2021	0
5025 Creekbank Rd. Mississauga, ON	83,089	6.50%	Aug. 2014	76,889
5115 Creekbank Rd. <sup>(2)</sup> Mississauga, ON	59,695	5.66%	July 2024	0
160 McNabb St. Markham, ON	16,409	6.72%	Jan. 2024	0
9050 West Washington Blvd. <sup>(2)(3)</sup> Culver City, CA	19,839 19,953	5.73% 5.63%	May 2024 May 2024	0 0
55 Yonge St. Toronto, ON	14,595	5.47%	Jan. 2018	10,108
145 Wellington St. W. Toronto, ON	12,556	6.98%	May 2018	0
649 North Service Rd. Burlington, ON	6,850	7.02%	May 2011	6,660
6900 Maritz Dr. Mississauga, ON	7,005	7.59%	June 2016	4,015
2611-3 <sup>rd</sup> Avenue S.E. <sup>(2)</sup> Calgary, AB	4,134	6.84%	Sept. 2013	3,579
291-295 The West Mall Etobicoke, ON	3,906	10.75%	Feb. 2012	3,349
200 Jameson Dr. <sup>(1)(2)</sup> Peterborough, ON	494 8,126	7.42% 7.42%	Aug. 2011 Aug. 2026	0 0
5901 East Fowler Ave. <sup>(2)(3)</sup> Temple Terrace, FL	5,904	5.12%	June 2023	2,494
1 Kenview Blvd. Brampton, ON	2,543	6.95%	Dec. 2013	1,748
88 McNabb St. Markham, ON	4,182	5.53%	Oct. 2017	3,357
1618 Station St. Vancouver, BC	13,183	5.79%	Jan. 2020	8,693
2767-2 <sup>nd</sup> Avenue Calgary, AB	4,683	7.10%	Nov. 2013	3,249
136 Charlotte St. Sydney, NS	2,617 3,784	4.83% 5.64%	Apr. 2020 May 2020	0 0
131 McNabb St. Markham, ON	5,215	5.80%	Apr. 2011	5,131

<b>Industrial Properties</b>	<b>Balance Outstanding as at December 31, 2010 (in thousands of dollars)</b>	<b>Contractual Interest Rate</b>	<b>Maturity Date</b>	<b>Outstanding Balance at Maturity (in thousands of dollars)</b>
8550 Goreway Dr. Brampton, ON	71,976 21,425	5.47% 5.47%	Jan. 2027 Jan. 2027	24,417 7,268
6336-114 <sup>th</sup> Avenue S.E. Calgary, AB	57,500 16,093	5.39% 5.29%	Feb. 2027 Feb. 2027	57,500 0
1915-B Fairview Dr. <sup>(2)(3)</sup> DeKalb, IL	32,357	5.94%	Feb. 2012	30,939
170 Butts St. <sup>(2)(3)(4)</sup> South Hill, VA	19,474	6.01%	May 2033	12,165

<b>Industrial Properties</b>	<b>Balance Outstanding as at December 31, 2010 (in thousands of dollars)</b>	<b>Contractual Interest Rate</b>	<b>Maturity Date</b>	<b>Outstanding Balance at Maturity (in thousands of dollars)</b>
One Nestle Ct. <sup>(2)(3)</sup> McDonough, GA	22,093	5.94%	Feb. 2012	21,586
2300 Rue Senkus LaSalle, QC	10,617	6.09%	July 2013	9,038
100 Metropolitan Rd. Toronto, ON	5,000	6.00%	Apr. 2019	0
220 Chemin du Tremblay Boucherville, QC	21,830	5.08%	June 2015	18,500
1400 Church St. S. Pickering, ON	46,980	5.22%	Jan. 2015	42,607
12090 Sage Point Ct. <sup>(2)(3)</sup> Reno, NV	16,352	5.68%	Nov. 2018	7,588
260 Jordan Rd. <sup>(2)(3)</sup> Tifton, GA	14,519	6.20%	Sept. 2016	13,097
13600 Independence Pkwy. <sup>(2)(3)</sup> Fort Worth, TX	19,898	5.94%	Feb. 2012	19,181
950 Stelzer Rd. <sup>(2)(3)</sup> Columbus, OH	13,233	5.40%	Jan. 2015	12,106
1880 Matheson Blvd. E. Mississauga, ON	19,261	6.20%	Aug. 2014	15,727
930 Sherwin Pkwy. <sup>(2)(3)</sup> Buford, GA	10,003	5.68%	Nov. 2018	4,554
500 Palladium Dr. Kanata, ON	5,718 6,841	7.43% 7.41%	Dec. 2015 Dec. 2015	3,375 4,100
4441-76 <sup>th</sup> Street Calgary, AB	7,257	7.05%	July 2016	4,089
137 Horner Ave. Etobicoke, ON	4,625	7.42%	Oct. 2011	4,384
1600 Lionel Boulet <sup>(2)</sup> Varennes, QC	3,797	7.41%	Oct. 2013	0
7830 Tranmere Dr. Mississauga, ON	13,280	5.14%	Aug. 2017	11,417
1595 North Service Rd. Oakville, ON	10,751	5.78%	July 2013	9,796
590 Nash Road, N. Hamilton, ON	8,894	5.66%	Oct. 2017	7,165
1801 Blairtown Rd. <sup>(2)(3)</sup> Rock Springs, WY	21,608	6.30%	Nov. 2029	0
475 Admiral Blvd. & 2695 Meadowvale Blvd. Mississauga, ON	17,566	5.77%	Jan. 2015	15,224
5105 Fisher St. Montreal, QC	10,329	5.66%	Oct. 2017	8,320
6100 Chemin Cote de Liesse Montreal, QC	24,830	5.66%	Oct. 2017	20,002
1616 Rue Eiffel Boucherville, QC	3,977	7.04%	Feb. 2011	3,932
1377 The Queensway Toronto, ON	9,160	5.66%	Oct. 2017	7,379
30 Aero Dr. Calgary, AB	5,471	7.04%	Feb. 2012	5,076
3900 Gantz Rd. <sup>(2)(3)</sup> Grove City, OH	4,469	5.69%	Apr. 2013	4,098

<b>Industrial Properties</b>	<b>Balance Outstanding as at December 31, 2010 (in thousands of dollars)</b>	<b>Contractual Interest Rate</b>	<b>Maturity Date</b>	<b>Outstanding Balance at Maturity (in thousands of dollars)</b>
189 Queen St. N. <sup>(2)</sup> Tilbury, ON	13,524	6.20%	Apr. 2022	8,058
316 Aviva Park Dr. Toronto, ON	21,581	5.66%	Oct. 2017	17,385
7575 Ave. <sup>(2)(3)(4)</sup> Philadelphia, PA	4,386	6.28%	Sept. 2028	213
2928-16 <sup>th</sup> Street N.E. & 3620-32 <sup>nd</sup> Street N.E. Calgary, AB	12,511	7.40%	June 2012	11,890
351 Passmore Ave. Scarborough, ON	4,115	7.06%	May 2011	4,001
1035 Wilton Grove Rd. London, ON	6,877	5.66%	Oct. 2017	5,539
5555 – 78 <sup>th</sup> Ave. S.E. Calgary, AB	22,173	5.66%	Oct. 2017	17,861
11 Cermak Blvd. <sup>(2)(3)</sup> St. Peters, MO	6,287	6.09%	Apr. 2016	5,360
20600 Rue Clark-Graham Montreal, QC	6,073	6.10%	Jan. 2014	5,444
11 Kenview Blvd. Brampton, ON	3,836	7.02%	May 2011	3,729
1, 4 & 8 Prince Andrew Pl. Toronto, ON	6,457	6.10%	Jan. 2014	5,788
20 Pettipas Dr. Halifax, NS	11,042	5.66%	Oct. 2017	8,895
5550 Skyline Way Calgary, AB	5,115	6.21%	July 2014	4,523
510 East Courtland St. <sup>(2)(3)(4)</sup> Morton, IL	2,977	6.28%	Sept. 2028	145
17718 - 114 <sup>th</sup> Avenue Edmonton, AB	3,699	7.28%	Mar. 2020	0
7000 Rue Armand Quebec City, QC	3,530	8.20%	Feb. 2012	3,232
300 Humber College Blvd. Etobicoke, ON	7,654	5.13%	Dec. 2015	6,396
525 Boxwood Dr. Cambridge, ON	3,744	6.43%	Aug. 2018	1,842
200 Rock Run Rd. <sup>(2)(3)</sup> Fairless Hills, PA	3,960	6.09%	Apr. 2016	3,376
15573 Oakwood Dr. <sup>(2)(3)</sup> Romulus, MI	4,442	6.09%	Apr. 2016	3,789
6740 Campobello Rd. <sup>(1)(2)</sup> Mississauga, ON	6,652	7.28%	Dec. 2019	0
9300 Airport Rd. Hamilton, ON	3,318	7.85%	Feb. 2012	3,034
200 Chisholm Dr. Milton, ON	3,399	6.92%	Mar. 2012	2,696
1550 Creditstone Rd. Vaughan, ON	3,857	7.73%	Feb. 2012	3,547
1588 Cliveden Ave. Vancouver, BC	13,509	5.66%	Oct. 2017	10,882
11 Simmonds Dr. Halifax, NS	6,917	5.66%	Oct. 2017	5,572
827 Graham Rd. <sup>(2)(3)</sup> Fremont, OH	3,035	6.09%	Apr. 2016	2,588

<b>Industrial Properties</b>	<b>Balance Outstanding as at December 31, 2010 (in thousands of dollars)</b>	<b>Contractual Interest Rate</b>	<b>Maturity Date</b>	<b>Outstanding Balance at Maturity (in thousands of dollars)</b>
2600 Meadowvale Rd. Mississauga, ON	3,475	7.85%	Feb. 2012	3,177
10300 Rue Henri Bourassa <sup>(2)</sup> St. Laurent, QC	1,273	7.41%	Oct. 2013	0
2 East Beaver Creek Rd. Richmond Hill, ON	3,378	6.00%	Jan. 2014	2,799
19572 – 94 <sup>th</sup> Ave. Vancouver, BC	11,368	5.66%	Oct. 2017	9,158
940 Gateway Dr. Burlington, ON	2,149	7.49%	June 2012	1,960
John G. Diefenbaker Airport Saskatoon, SK	2,016	7.75%	Aug. 2011	1,932
9201 Rue de l’Innovation Anjou, QC	2,083	8.05%	Feb. 2012	1,902
6520 Kestrel Rd. Mississauga, ON	2,619	7.85%	Feb. 2012	2,396
2005 Blvd. Dagenais Laval, QC	2,201	7.70%	Feb. 2012	2,015
550 York Rd. Niagara-on-the-Lake, ON	2,209	8.05%	Feb. 2012	2,019
3104 - 97 <sup>th</sup> St. Edmonton, AB	2,242	7.28%	Mar. 2020	0
51 Kelfield St. Toronto, ON	4,299	5.00%	Nov. 2020	0
96 Glencoe Dr. St. John’s, NL	4,050	5.66%	Oct. 2017	3,263
360 Spinnaker Way Vaughan, ON	541	4.96%	Jan. 2011	537
2815 Matheson Blvd. E. Mississauga, ON	1,509	7.73%	June 2012	1,226
4248 - 14 <sup>th</sup> Avenue Markham, ON	1,401	5.84%	Jan. 2015	1,104
Finning Portfolio Western Canada	37,241	7.48%	Jan. 2022	806
Maxxam Portfolio AB	8,116	5.00%	Oct. 2016	7,066
Wentworth Portfolio ON	8,516	6.09%	Nov. 2014	7,448

<b>Retail Properties</b>	<b>Balance Outstanding as at December 31, 2010 (in thousands of dollars)</b>	<b>Contractual Interest Rate</b>	<b>Maturity Date</b>	<b>Outstanding Balance at Maturity (in thousands of dollars)</b>
14111 Entertainment Blvd. Richmond, BC.	22,637	5.10%	Sept. 2015	19,046
14300 Entertainment Blvd. Richmond, BC	16,351	5.04%	Sept. 2015	14,554
14140 Triangle Rd. Richmond, BC	16,263	5.04%	Sept. 2015	13,670
NorthPointe Towne Centre Calgary, AB	41,948	5.48%	Jun. 2016	37,055
10450-42 <sup>nd</sup> Avenue Edmonton, AB	8,455	7.04%	July 2018	4,253
615 George Wallace Dr. <sup>(2)(3)</sup> Gadsden, AL	7,072	5.48%	Feb. 2023	0
1701 Frederick Rd. <sup>(2)(3)</sup> Opelika, AL	8,116	6.03%	Nov. 2012	7,782

<b>Retail Properties</b>	<b>Balance Outstanding as at December 31, 2010 (in thousands of dollars)</b>	<b>Contractual Interest Rate</b>	<b>Maturity Date</b>	<b>Outstanding Balance at Maturity (in thousands of dollars)</b>
2301 Woodmont St. <sup>(2)(3)</sup> Columbus, MS	6,992	5.41%	Jan. 2022	0
3505 North Memorial Pkwy. <sup>(2)(3)</sup> Huntsville, AL	7,359	5.41%	July 2022	0
575 Molly Lane <sup>(2)(3)</sup> Woodstock, GA	6,495	6.55%	Apr. 2018	0
733 Pleasant Hill Rd. <sup>(2)(3)</sup> Lilburn, GA	6,856	6.70%	Feb. 2018	0
2650 Dallas Hwy. <sup>(2)(3)</sup> Marietta, GA	6,714	7.66%	Nov. 2017	1,680
8199 Pearl Rd. <sup>(2)(3)</sup> Strongsville, OH	8,175	5.29%	July 2022	0
2495 Gulf To Bay Blvd. <sup>(2)(3)</sup> Clearwater, FL	9,184	5.29%	July 2022	0
200 Weis Lane off Susquehanna Blvd. <sup>(2)(3)</sup> West Hazelton, PA	5,902	5.75%	June 2018	2,875
10580 Duke Dr. <sup>(2)(3)</sup> Alpharetta, GA	7,919	6.62%	Apr. 2019	0
4855 Stone Mountain Hwy. <sup>(2)(3)</sup> Lilburn, GA	8,147	6.09%	Jan. 2020	0
775 Panet Rd. Winnipeg, MB	5,259	5.40%	Oct. 2012	4,601
1929 NE Pine Island Rd. <sup>(2)(3)</sup> Cape Coral, FL	14,145	5.35%	Oct. 2015	13,082
6344 Cash Crt. <sup>(2)(3)</sup> Norcross, GA	10,471	5.85%	Feb. 2025	0
38292 Colorado Ave. <sup>(2)(3)</sup> Avon, OH	6,442	7.50%	Nov. 2019	2,975
1677 Home Ave. <sup>(2)(3)</sup> Akron, OH	9,286	5.54%	Oct. 2015	8,397
3712 Call Field Rd. <sup>(2)(3)</sup> Wichita Falls, TX	7,922	5.51%	May 2035	456
5555 South Buckner Blvd. <sup>(2)(3)</sup> Dallas, TX	5,924	5.75%	June 2018	2,886
275 Boul. Rideau Rouyn-Noranda, QC	828	7.68%	Oct. 2016	0
1550 & 1580 Cameron St. Hawkesbury, ON	7,845	5.16%	Dec. 2016	6,380
1020 Dawson Rd. Thunder Bay, ON	575	6.25%	Jun. 2012	549
711 Creek View Dr. <sup>(2)(3)</sup> Columbus, IN	3,473	5.75%	June 2018	1,692
7919 Day Dr. <sup>(2)(3)</sup> Parma, OH	10,785	5.25%	June 2015	9,676
2665-32 <sup>nd</sup> Street N.E. Calgary, AB	4,979	7.44%	Sept. 2021	0
914 East North Ave. <sup>(2)(3)</sup> Belton, MO	7,210	5.30%	Jan. 2015	6,500
1333 Sargent Ave. Winnipeg, MB	4,748	5.40%	Oct. 2012	4,154

<b>Retail Properties</b>	<b>Balance Outstanding as at December 31, 2010 (in thousands of dollars)</b>	<b>Contractual Interest Rate</b>	<b>Maturity Date</b>	<b>Outstanding Balance at Maturity (in thousands of dollars)</b>
Interstate 640 at Washington Pike Knoxville, TN <sup>(2)(3)</sup>	5,278	5.75%	June 2018	2,572
115-118 Wilmar Ave. Grand Island, NE <sup>(2)(3)</sup>	9,717 1,419	6.00% 6.00%	Dec. 2029 Dec. 2029	0 0
2140 E. 116 <sup>th</sup> St. Carmel, IN <sup>(2)(3)</sup>	10,493	5.88%	Dec. 2016	9,347
8766 E. 96 <sup>th</sup> St. Fishers, IN <sup>(2)(3)</sup>	7,648	5.88%	Dec. 2016	6,812
1058-1100 10 <sup>th</sup> St. Hanover, ON	4,097	6.32%	Dec. 2022	0
590-640 River St. Thunder Bay, ON <sup>(2)</sup>	8,232	5.16%	Dec. 2016	6,695
2951 S.W. Wanamaker Rd. Topeka, KS <sup>(2)(3)</sup>	12,561	6.00%	Dec. 2029	0
205 West Ave. Tallmadge, OH <sup>(2)(3)</sup>	7,665	5.62%	Jan. 2017	6,961
50 Cambridge St. Worcester, MA <sup>(2)(3)</sup>	7,358	6.25%	Nov. 2013	6,661
1510 South Main Ave. Taylor, PA <sup>(2)(3)</sup>	5,027	7.35%	May 2025	0
9400 E. 350 Hwy. Raytown, MO <sup>(2)(3)</sup>	11,924	6.00%	Dec. 2029	0
124 & 128 Boston Post Rd. Waterford, CT <sup>(2)(3)</sup>	4,677	5.75%	June 2018	2,279
10679 N. Michigan Rd. Zionsville, IN <sup>(2)(3)</sup>	9,006	5.88%	Dec. 2016	8,049
715 S. Tillotson Muncie, IN <sup>(2)(3)</sup>	6,655	5.88%	Dec. 2016	5,935
8150 Rockville Rd. Indianapolis, IN <sup>(2)(3)</sup>	2,383	5.75%	June 2018	1,161
9950 Berberich Dr. Florence, KY <sup>(2)(3)</sup>	2,130	6.44%	June 2018	0
1013 Forest Ave. Marion, IN <sup>(2)(3)</sup>	4,960	5.88%	Dec. 2016	4,424
717 Clearview Pkwy. Metairie, LA <sup>(2)(3)</sup>	9,380	5.89%	Apr. 2016	8,444
4478 Market St. Marianna, FL <sup>(2)(3)</sup>	2,043	6.44%	June 2018	0
11625 Fox Rd. Indianapolis, IN <sup>(2)(3)</sup>	6,735	5.88%	Dec. 2016	5,999
1825 Kinser Pike Bloomington, IN <sup>(2)(3)</sup>	7,057	5.88%	Dec. 2016	6,286
7350 Middlebelt Rd. Westland, MI <sup>(2)(3)</sup>	7,461	6.24%	July 2016	6,897
2900 Veterans Hwy. Metairie, LA <sup>(2)(3)</sup>	8,480	6.39%	Sept. 2017	7,570
4610 Ontario St. Beamsville, ON	7,077	5.16%	Dec. 2016	6,161
6951 Lee Hwy. Chattanooga, TN <sup>(2)(3)</sup>	4,822	5.28%	July 2015	4,362

<b>Retail Properties</b>	<b>Balance Outstanding as at December 31, 2010 (in thousands of dollars)</b>	<b>Contractual Interest Rate</b>	<b>Maturity Date</b>	<b>Outstanding Balance at Maturity (in thousands of dollars)</b>
231-247 Mill St. Angus, ON	6,585	5.16%	Dec. 2016	5,732
3015 West US 36 <sup>(2)(3)</sup> Pendleton, IN	5,994	5.88%	Dec. 2016	5,339
205 Oakbrook Dr. <sup>(2)(3)</sup> Mt. Washington, KY	3,528	5.98%	Apr. 2016	3,181
420 Market St. <sup>(2)(3)</sup> Dayton, TN	4,554	5.28%	July 2015	4,120
315 Grand River St. N. Paris, ON	5,873	5.16%	Dec. 2016	5,112
5428 Dogwood Dr. <sup>(2)(3)</sup> Milton, FL	1,340	6.44%	June 2018	0
1800-1812 LaSalle Blvd. Sudbury, ON	4,192	3.97%	Nov. 2015	3,655
812, 814 & 818 Durham St. Kincardine, ON	2,791	7.98%	Sept. 2015	2,212
140 Algonquin Blvd. W. Timmins, ON	3,918	5.16%	Dec. 2016	3,186
61 <sup>st</sup> Ave. and Barlow Trail S.E. Calgary, AB	2,612	5.40%	Nov. 2011	2,480
191 Indian Rd. S. Sarnia, ON	4,486	5.16%	Dec. 2016	3,905
2940 N. Broadway <sup>(2)(3)</sup> Anderson, IN	4,296	5.88%	Dec. 2016	3,826
342 Blue Ridge St. <sup>(2)(3)</sup> Blairsville, GA	2,907	5.28%	July 2015	2,630
2080 Jans Blvd. Innisfil, ON	4,748	5.16%	Dec. 2016	4,133
20210 Communication Rd. Blenheim, ON	4,331	5.16%	Dec. 2016	3,770
505 Arthur St. W. Thunder Bay, ON	3,580	5.16%	Dec. 2016	2,912
819 West Carolina Ave. <sup>(2)(3)</sup> Hartsville, SC	2,458	5.28%	July 2015	2,223
560 Exmouth St. Sarnia, ON	1,154	5.16%	Dec. 2016	938
1012 Broad St. E. Dunnville, ON	4,171	5.16%	Dec. 2016	3,631
110 Highway 20 E. Pelham, ON	3,998	5.16%	Dec. 2016	3,480
14 Main St. Brighton, ON	5,728	5.16%	Dec. 2016	4,986
2615 County Rd. 43 (Hwy. 43) Kemptville, ON	3,103	5.16%	Dec. 2016	2,701
State Bridge & Morton Rd. <sup>(2)(3)</sup> Alpharetta, GA	5,549	5.51%	Nov. 2023	0
2755 Laurier St. Rockland, ON	3,341	5.16%	Dec. 2016	2,909
46651 & 46655 Algonkian Pkwy. <sup>(2)(3)</sup> Sterling, VA	6,053	5.84%	Apr. 2022	0
901 Supermall Rd. <sup>(2)(3)</sup> Auburn, WA	4,856	7.77%	Aug. 2021	0
4845 & 4865 Alabama Rd. N.W. <sup>(2)(3)</sup> Roswell, GA	4,465	5.84%	Apr. 2022	0

<b>Retail Properties</b>	<b>Balance Outstanding as at December 31, 2010 (in thousands of dollars)</b>	<b>Contractual Interest Rate</b>	<b>Maturity Date</b>	<b>Outstanding Balance at Maturity (in thousands of dollars)</b>
902 Mohawk Rd. E. Hamilton, ON	3,464	5.16%	Dec. 2016	3,015
593 Summit Blvd. <sup>(2)(3)</sup> Broomfield, CO	5,819	8.14%	Dec. 2020	0
1546 East Ray Rd. <sup>(2)(3)</sup> Gilbert, AZ	5,105	5.53%	Apr. 2022	0
400 E. FM 2410 Rd. <sup>(2)(3)</sup> Harker Heights, TX	3,376	6.53%	Dec. 2031	0
Washington & Harrison Road <sup>(2)(3)</sup> McDuffy County, Thomson, GA	2,168	5.75%	June, 2018	1,056
1220 W. University Ave. <sup>(2)(3)</sup> Georgetown, TX	5,202	6.71%	Dec. 2033	0
4776 Twin City Hwy. <sup>(2)(3)</sup> Groves, TX	4,193	6.53%	Aug. 2032	0
22994 East Smoky Hill Rd. <sup>(2)(3)</sup> Aurora, CO	4,532	7.49%	Dec. 2020	0
1790 Texas Ave. <sup>(2)(3)</sup> Bridge City, TX	5,075	6.53%	Oct. 2033	0
3822 Old Spanish Tr. <sup>(2)(3)</sup> Houston, TX	5,829	6.44%	Sept. 2032	0
1225 East Ridge Rd. <sup>(2)(3)</sup> Griffith, IN	1,834	5.75%	June 2018	893
42285 & 44245 Farmwell Rd. <sup>(2)(3)</sup> Ashburn, VA	5,907	5.35%	Jan. 2025	0
101 S. Washington Ave. <sup>(2)(3)</sup> Cleveland, TX	4,697	6.44%	Mar. 2033	0
3332 Arapahoe Rd. <sup>(2)(3)</sup> Erie, CO	3,752	7.77%	May 2020	0
7520 Village Square Dr. <sup>(2)(3)</sup> Castle Rock, CO	3,813	7.78%	May 2020	0
Highway 20 & Samples Rd. <sup>(2)(3)</sup> Cumming, GA	4,069	5.46%	Feb. 2023	0
1947 & 1959 South Greenfield Rd. <sup>(2)(3)</sup> Mesa, AZ	4,514	5.19%	Sept. 2024	0
4901 & 4951 West Eldorado Pkwy. <sup>(2)(3)</sup> McKinney, TX	5,203	5.63%	Nov. 2022	0
16542 Keystone Blvd. <sup>(2)(3)</sup> Parker, CO	3,626	6.63%	Sept. 2019	0
83 <sup>rd</sup> Avenue & Thunderbird Rd. <sup>(2)(3)</sup> Peoria, AZ	4,759	5.78%	Sept. 2022	0
7112 Highway 98 <sup>(2)(3)</sup> Panama City, FL	1,025	5.75%	June 2018	499
1347 West 15 <sup>th</sup> Street <sup>(2)(3)</sup> Panama City, FL	1,025	5.75%	June 2018	499
6217 Silver Star Rd. <sup>(2)(3)</sup> Orlando, FL	1,032	5.75%	June 2018	503
302 North Tyndall Pkwy <sup>(2)(3)</sup> Callaway, FL	1,047	5.75%	June 2018	510

<b>Retail Properties</b>	<b>Balance Outstanding as at December 31, 2010 (in thousands of dollars)</b>	<b>Contractual Interest Rate</b>	<b>Maturity Date</b>	<b>Outstanding Balance at Maturity (in thousands of dollars)</b>
2701 Dick Pond <sup>(2)(3)</sup> Surfside Beach, SC	936	5.75%	June 2018	456
502 37 <sup>th</sup> Ave. S.E. <sup>(2)(3)</sup> Puyallup, WA	5,124	5.35%	Mar. 2025	0
6330 State Rd. 7 <sup>(2)(3)</sup> Coconut Creek, FL	4,650	5.67%	April 2017	3,968
3990 Red Cedar Dr. <sup>(2)(3)</sup> Highlands Ranch, CO	5,101	5.35%	Mar. 2025	0
Rona Portfolio <sup>(2)</sup> ON and QC	70,040	5.78%	Nov. 2014	64,014

<b>Properties Under Development</b>	<b>Balance Outstanding as at December 31, 2010 (in thousands of dollars)</b>	<b>Contractual Interest Rate</b>	<b>Maturity Date</b>	<b>Outstanding Balance at Maturity (in thousands of dollars)</b>
12094 Dixie Road Caledon, ON	18,000	4.00%	Sept. 2015	18,000
Mortgages Payable Due on Demand <sup>(5)</sup>	77,365			77,365
<b>Subtotal:</b>	<b>2,710,534</b>			
Mortgage Premiums <sup>(6)</sup>	7,701			
Mortgage Origination Costs <sup>(7)</sup>	(11,528)			
<b>Total:</b>	<b>\$2,706,707</b>			<b>\$1,518,276</b>

## Notes:

- (1) Debt related to these 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.
- (2) These mortgages are non-recourse to the REIT.
- (3) Legal title to each of the U.S. 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 does not prevent distributions to the entity owners provided there are no conditions of default. The outstanding balances and balances at maturity, if any, for each of these properties are converted to Canadian dollars as at December 31, 2010 year end rate of \$0.99 CDN = 1.00 USD.
- (4) Each of these mortgages has an optional prepayment date in September 2013. Should the REIT not exercise this option, the interest rate payable thereafter on each such mortgage will be subject to a one-time 2% per annum increase.
- (5) Relates to seven non-recourse mortgages to the REIT for properties in which the tenants, Boscov's Department Stores, Bruno's Supermarkets, LLC and The Great Atlantic & Pacific Tea Company have filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The REIT has handed over control of three of these income-producing properties to the Lender and therefore expects to be released from any further obligations.
- (6) Mortgage Premiums represent the difference between the actual mortgages assumed on property acquisitions and the fair value of the mortgages at the date of purchase, less accumulated amortization.
- (7) Mortgage origination costs are deducted from the REIT's mortgage payable balances and are recognized in interest over the life of the applicable mortgage.

The REIT is substantially leveraged with fixed rate debt. The indebtedness of the REIT as at December 31, 2010 is approximately 59.8% of the Gross Book Value and 50.3% as calculated in accordance with the provisions of the REIT Declaration of Trust. See "Risk Factors – Interest Rate and Other Debt Related Risks".

## Overview of Portfolio

The following table summarizes the Properties as at December 31, 2010 (net ownership position)<sup>(1)</sup>:

	<u>Office</u>	<u>Industrial</u>	<u>Retail</u>	<u>Total</u>
Number of Properties <sup>(1)</sup> .....	35	118	129	282
Total Leasable Area (square feet) <sup>(1)</sup> .....	8,379,827	22,600,000	8,089,959	39,069,786
Occupancy <sup>(2)(3)</sup> .....	99.2%	98.3%	100%	98.9%
Average Rent in Place (per square foot) <sup>(4)</sup> .....	\$19.65	\$5.76	\$12.75	\$10.19
Interest Rate on Outstanding Mortgages <sup>(2)</sup> .....	6.7%	6.0%	5.8%	6.2%

Notes:

- (1) Excludes the seven properties in which the tenants, Boscov's Department Stores, Bruno's Supermarkets, LLC and The Great Atlantic & Pacific Tea Company (totalling 909,175 square feet), which filed for Chapter 11 protection with a United States bankruptcy court. The REIT has handed over control of these properties to the lenders.
- (2) Weighted average.
- (3) Excluding those tenants who have filed for protection under Chapter 11 of the United States Bankruptcy Code.
- (4) For continuing operations only and excluding those tenants who have filed for protection under Chapter 11 of the United States Bankruptcy Code.

The REIT provides segmented disclosure in its financial statements on a geographic basis as the property operations in the each of Canada and in the United States are considered to be geographic segments. As management has assessed that all assets effectively adhere to the same investment policy of being leased on a long-term basis to creditworthy tenants and financed where possible on a matching long-term basis, and as the REIT manages all assets on a similar basis, the REIT's management has determined that the REIT has a single class of assets. For more information regarding the REIT's operating segments, see "Segmented Information" in the REIT's most recently filed management's discussion and analysis, which may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The following table summarizes the lease maturities for the Properties:

<u>Year</u>	<u>Office</u> <sup>(1)</sup>	<u>Industrial</u> <sup>(1)</sup>	<u>Retail</u> <sup>(1)</sup>	<u>Total</u> <sup>(1)</sup>
2011 .....	0.3%	0.8%	0.1%	1.2%
2012 .....	0.8%	1.9%	0.1%	2.8%
2013 .....	0.5%	3.8%	0.4%	4.7%
2014 .....	1.4%	3.5%	0.4%	5.3%
2015 .....	1.1%	1.3%	0.3%	2.7%

Notes:

- (1) % of total leasable area of the Properties.

The following table summarizes the debt maturities for the Properties, exclusive of normal monthly self-amortizing principal repayments, mortgage premiums and mortgage origination costs (in thousands of dollars):

<u>Year</u>	<u>Properties Under Development</u>	<u>Office</u> <sup>(1)</sup>	<u>Industrial</u> <sup>(1)</sup>	<u>Retail</u> <sup>(1)</sup>	<u>Total</u> <sup>(1)</sup>
2011.....	—	\$49,251	\$18,515	\$2,480	\$70,246
2012.....	—	130,921	116,423	16,537	263,881
2013 <sup>(2)</sup> .....	—	78,228	22,932	6,661	107,821
2014.....	—	76,889	41,729	64,014	182,632
2015.....	\$18,000	—	103,412	104,127	225,539

Notes:

- (1) Where the interest of the REIT in a property is less than 100%, only that portion of the mortgage which is attributable to the REIT is represented.
- (2) Three mortgages with a current outstanding balance of \$26.8 million have a prepayment option in 2013. Should the REIT not exercise this option, the interest rate payable thereafter on each such mortgage will be subject to a one-time 2% per annum increase. The expiry dates of such mortgages range from 2028 to 2033.

### PROPERTIES UNDER DEVELOPMENT

The following is a detailed description of properties under development as at December 31, 2010.

#### *The Bow – 5<sup>th</sup> Ave. at Centre St., Calgary, Alberta*

The REIT has entered into agreements to develop the Bow, a 2.0 million square foot head office complex in Calgary, Alberta for a budgeted cost of approximately \$1.5 billion, including expected capitalized interest, and net of rent received during the construction period. The budget includes the cost to construct 1,360 parking stalls. The REIT has entered into fixed price contracts amounting to approximately 92% of the budgeted \$1.1 billion of hard construction costs. As a result, together with the costs incurred to date, the REIT has effectively locked in approximately 97% of the total budget before contingencies. The project is currently on budget. (See “– General Developments of the Business of the REIT”, “Description of the Bow Construction Financing Facility” and “Risk Factors – Development and Financing Risk Relating to the Bow”.)

The REIT acquired the lands from affiliates of EnCana for a price of approximately \$70 million, which included a reimbursement of the majority of costs spent by EnCana. Construction commenced during the spring of 2007 and is expected to be completed and delivered in phases with the first phases of the building being completed in the second half of 2011 and the estimated completion date for the entire office space being in 2012. The building is fully pre-leased, on a triple net basis, to EnCana for 25 years. The project is approximately three months behind schedule from the first contractual tranche delivery date. The potential cost expected to be realized in the form of free rent for the late delivery of these tranches is approximately \$4.7 million and is included in the budgeted soft costs. The \$30.0 million contingency for the project would be available for any additional delay costs.

The REIT’s total investment in the Bow as at December 31, 2010 was approximately \$1,150 million. The REIT is expecting to incur approximately \$360 million of the Bow’s development costs over the next twelve months. The total annualized year one projected income from the project is expected to be approximately \$94 million. Rent step ups will be 0.75% per annum on the office space and 1.5% per annum on the parking income for the full 25-year term. Further information regarding the budgeted costs to complete the Bow and actual costs incurred as at December 31, 2010, as well as the estimated funds required and projected sources of funds for the 2011-2012 period, is available in the REIT’s management discussion and analysis for the year ended December 31, 2010 under the headings

“Properties Under Development” and “Funding of Future Commitments”. See “Risk Factors – Development and Financing Risk Relating to the Bow”.

***7900 Airport Road, Brampton, Ontario***

At December 31, 2010, the REIT had an 80% interest in a joint venture to develop approximately 1.6 million square feet of industrial property on approximately 72 acres. As at December 31, 2010 the REIT had invested a total of approximately \$38.0 million in this project. In January 2011, the REIT completed the acquisition of the remaining 20% beneficial interest for an aggregate purchase price of \$11.0 million. The REIT now owns 100% of approximately 81 acres of land located in Brampton, Ontario to develop approximately 1.6 million square feet of industrial property.

***Mayfield West, Caledon, Ontario***

During the fourth quarter of 2010, the REIT acquired property under development comprising approximately 106 acres located in Caledon, Ontario for a purchase price of approximately \$38.0 million and a vendor take-back mortgage of \$18.0 million bearing interest at 4.0% per annum and maturing in October 2015. The land forms part of the planned community of Mayfield West. The project consists of an aggregate of 205 acres of development land and is expected to produce 3.5 million square feet of industrial properties. As at December 31, 2010, the REIT had invested a total of approximately \$80.2 million in the project.

**MANAGEMENT OF THE PROPERTIES**

*The following is a summary of certain provisions of the Omnibus Management Agreement and does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the Omnibus Management Agreement, as filed on SEDAR.*

The REIT, the Property Manager and U.S. Holdco are parties to the Omnibus Management Agreement. Pursuant to the Omnibus Management Agreement, the Property Manager (i) administers, supervises and has general responsibility for the overall management, maintenance and operation (the “**Management Services**”) of the properties of the REIT (with respect to Canadian properties) and of U.S. Holdco (with respect to U.S. properties), other than certain excluded properties described therein (the “**Excluded Properties**”), and (ii) provides support services (the “**Support Services**”) in connection with the acquisition and development activities of the REIT and U.S. Holdco. The current term of appointment of the Property Manager under the Omnibus Management Agreement expires on January 1, 2015, at which time such term will be automatically extended for an additional 5-year term, expiring on January 1, 2020, unless terminated.

In connection with the provision of the Management Services, the Property Manager is entitled to a fee for each fiscal year equal to 2% of the gross rental revenue (excluding gross rental revenue from Excluded Properties), subject to certain deductions including property management fees paid to property managers of independently managed properties and property management fees payable to the Property Manager in respect of co-owned properties which are subject to separate property-specific management agreements. Such property-specific management agreements generally contain customary provisions and termination rights upon notice by the Property Manager, upon a change of control of the Property Manager and upon a material breach of the Non-Competition Agreement or the applicable co-owners agreement. In connection with the provision of the Support Services, the Property Manager is entitled to an annual fee equal to 2/3<sup>rds</sup> of 1% of the sum of (i) the value of each real property acquisition made by the REIT or by another entity wholly owned directly or indirectly by the REIT or owned jointly directly or indirectly by the REIT with a co-owner, and (ii) the value of any project development costs funded by

the REIT or by another entity wholly owned directly or indirectly by the REIT. The Property Manager is entitled to be reimbursed for all disbursements relating to the operation and activities of the REIT or U.S. Holdco, as the case may be, reasonably incurred by the Property Manager in providing the Support Services. The Property Manager is required to pay to the REIT or U.S. Holdco, as applicable, certain amounts in respect of payments of fees received by the Property Manager from co-owners of properties that are not independently managed for management services and from co-owners of properties for support services.

Until the earlier of the termination of the Omnibus Management Agreement and employment agreement between the REIT and Thomas J. Hofstedter as Chief Executive Officer of the REIT, for each fiscal year the Property Manager shall be entitled to receive from the REIT: (i) an incentive fee (the “**Incentive Fee**”) equal to 7.5% of the amount, if any, by which the distributable cash of the REIT (as determined consistent with past practices) and, prior to an Event of Uncoupling, the Finance Trust Distributable Cash, in aggregate (“**Distributable Cash**”), for that fiscal year (prior to giving effect to any incentive bonus payment, including the Incentive Fee or Disposition Fee) exceeds 10% of the simple average of the aggregate amount of unitholders’ equity and non-controlling interest of the REIT and, prior to an Event of Uncoupling, unitholder’s equity of Finance Trust (“**Unitholders’ Equity**”) on the last business day of each of the quarterly periods during such fiscal year, without giving any effect to the reduction in Unitholders’ Equity caused by or resulting from the future income tax liability recorded by the REIT or Finance Trust in connection with, arising from or related to the federal legislation relating to taxation of a “specified investment flow-through” trust or partnership (notwithstanding the foregoing the Incentive Fee for 2010 fiscal year was set at \$2.5 million and for 2011 and 2012 fiscal years has been effectively capped at \$3.5 million and \$4.5 million respectively, subject to reduction by the REIT); and (ii) subject to the application of any Disposition Fee Reduction, a disposition fee (the “**Disposition Fee**”) equal to 10% of the Net Gain, provided that the Disposition Fee shall be payable in a fiscal year only if the Distributable Cash for such fiscal year exceeds 10% of the simple average of Unitholders’ Equity, in each case as calculated and determined as noted above, and provided further that any Disposition Fee payable shall be reduced by any previously unapplied Disposition Fee Reduction.

The Property Manager is responsible for its own head office expenses including employment expenses for its personnel, travel and entertainment expenses not specifically allocated to the Management Services or Support Services, rent and other overhead, office and administrative expenses incurred in providing such services (but not expenses for on-site offices and personnel specifically allocated or dedicated to the properties subject to the Omnibus Management Agreement.

The Omnibus Management Agreement requires the Property Manager to discharge its responsibilities honestly, in good faith and in the best interest of the REIT and U.S. Holdco (as the case may be), places limits on the authority of the Property Manager to commit to expenditures in the performance of the Management Services and Support Services, prohibits the Property Manager from entering into any contract in respect of a property subject to the Omnibus Management Agreement with a person who is not at “arm’s length” (as defined in the Tax Act) from the Property Manager unless the terms of such agreement reflect market terms, and requires the Property Manager to provide certain monthly, annual and other interim reports and statements in respect of the properties subject to the Omnibus Management Agreement.

The Omnibus Management Agreement may be terminated by either the REIT or U.S. Holdco with respect to all or any of the properties subject to the Omnibus Management Agreement in the event of: (i) any change of control (including control in fact) of the Property Manager to any person who is not a member of the Hofstedter Family or the Rubinstein Family, unless such person is or has retained the services of a reputable and experienced property manager (who has been approved by the REIT, acting reasonably); (ii) a material uncured default under the Non-Competition Agreement, subject to certain

exceptions; (iii) Thomas J. Hofstedter having ceased to have an active role in the management of the REIT and the Property Manager subject to certain exceptions; or (iv) an event of default by the Property Manager which is not waived by the REIT or U.S. Holdco (as the case may be), and after expiry of all relevant cure periods, provided such termination is effected pursuant to the procedure set out in the Omnibus Management Agreement. The occurrence of any of the following constitutes an event of default by the Property Manager: (A) the failure by the Property Manager to perform the Management Services or Support Services or otherwise comply with its obligations under the Omnibus Management Agreement which failure materially adversely delays or affects the management of the properties subject to the Omnibus Management Agreement or the acquisition and development activities of the REIT; (B) an event of insolvency in respect of the Property Manager and no assumption of the liabilities and obligations of the Property Manager by a corporation controlled by member(s) of the Hofstedter Family or Rubinstein Family or permitted assignee or controlling person of the Property Manager; or (C) a fraudulent act committed by the Property Manager or by any of its directors, officers, employees, shareholders, “associates” or “affiliates” (each as defined in the Omnibus Management Agreement) in connection with any of the properties subject to the Omnibus Management Agreement.

The Omnibus Management Agreement is not assignable by any of the parties except with prior written consent of the other party or, in the case of the Property Manager and on prior written notice to the REIT, to any person which is controlled by any one or more of the members of the Hofstedter Family and the Rubinstein Family or to an “affiliate” (as defined in the Omnibus Management Agreement) of the Property Manager provided that, among other conditions, the Property Manager is not released from its obligations under the Omnibus Management Agreement.

If there is a disposition of all or substantially all of the properties subject to the Omnibus Management Agreement, the Property Manager is entitled to a termination fee sufficient to reimburse it on a present value basis (utilizing a discount rate based on Government of Canada bond rates) for lost future profit in connection with the provision of the Management Services and Support Services (and the calculation for lost future profit in respect of Support Services only shall include all Excluded Properties). Upon payment of such fee, the Omnibus Management Agreement will then be terminated.

If within any fiscal year during the term of the Omnibus Management Agreement, there are one or more dispositions (which do not constitute a disposition of all or substantially all of the properties subject to the Omnibus Management Agreement) of a property or properties subject to the Omnibus Management Agreement (excluding, for greater certainty Excluded Properties) and the aggregate book value (after depreciation) of such property(ies) (or the REIT’s or U.S. Holdco’s interest in the disposed properties) is more than 10% of the aggregate book value of all income properties (after depreciation) of the REIT and U.S. Holdco calculated as at the last day of the immediately preceding fiscal year and as reflected in the REIT’s annual audited financial statements for such fiscal year (the “**10% Threshold**”), the Property Manager is entitled to a cancellation fee sufficient to reimburse it on a present value basis (using a discount rate based on Government of Canada bond rates), for lost future profit in connection with the provision of the Management Services and the Support Services applicable to the value of that portion of such property or properties which exceeded the 10% Threshold for the remaining term of the Omnibus Management Agreement. If there is a disposition within any fiscal year during the term of the Omnibus Management Agreement to a non-arm’s length entity in relation to the REIT (other than a disposition of all or substantially all of the properties subject to the Omnibus Management Agreement), the 10% Threshold does not apply and a cancellation fee is payable in respect of each such disposition. Notwithstanding the payment to the Property Manager of the cancellation fee in either case, the Omnibus Management Agreement continues in respect of all properties subject to the Omnibus Management Agreement other than the disposed properties.

Subject to certain exceptions, during the term of the Omnibus Management Agreement the REIT is prohibited from acquiring any additional property which is not, or will not be, managed by the Property Manager.

### NON-COMPETITION ARRANGEMENTS

H&R Developments and the Related Parties entered into the non-competition agreement (the “**Non-Competition Agreement**”) with the REIT, effective December 23, 1996, pursuant to which H&R Developments are prohibited from investing in any office or industrial property in Canada and the Related Parties (and their spouses and minor children) are prohibited from investing in any office, industrial or retail property in Canada, unless such investment has first been offered to the REIT in accordance with the terms of the Non-Competition Agreement or subject to the following exceptions relating to office or industrial property development and office property acquisition: (i) if the “excepted property” is not a build to suit, it must be offered to the REIT at fair market value after it has been substantially leased; (ii) if the “excepted property” is a proposed build to suit for a specific tenant on a “turnkey” basis, it must be offered in advance to the REIT for purchase on completion and occupancy by the tenant; and (iii) if the “excepted property” is a build to suit to be sold (unless such property was built for a specific tenant on a “turnkey” basis), it must be first offered to the REIT, subject to the rights of tenants and co-owners. H&R Developments and the Related Parties have also agreed that, during the term of any lease of a tenant of any Initial Property or within 60 days after the expiry thereof, they and their applicable spouses and minor children will not solicit such tenant to move to a building in which the REIT does not have an interest.

The restrictions in the Non-Competition Agreement apply to H&R Developments until the latest of: (i) one year after the Hofstedter Family and the Rubinstein Family, directly or indirectly, cease to own at least a 10% interest in the Initial Properties, whether directly as co-owners and/or indirectly as unitholders of the REIT; (ii) Thomas J. Hofstedter ceases to be bound by the Non-Competition Agreement and has no active role in the management of H&R Developments; and (iii) the date that the property management agreements with the Property Manager for the Initial Properties have terminated.

Each of the Related Parties is bound by such restrictions until one year after the later of such party ceasing (i) to have any interest in the Initial Properties, whether as a co-owner or a shareholder, director or officer of a corporation comprising H&R Developments (so long as the Hofstedter Family and the Rubinstein Family, directly or indirectly, have at least a 10% interest in the Initial Properties whether as co-owners and/or unitholders) or as a unitholder, and (ii) ceasing to be a REIT Trustee, officer or employee of the REIT. A breach of the Non-Competition Agreement by Thomas J. Hofstedter or H&R Developments (so long as Thomas J. Hofstedter has an active role in the management of H&R Developments) entitles the REIT to terminate his employment with the REIT without severance.

The restrictions in the Non-Competition Agreement do not apply, among other exclusions to, (i) any investments in respect of which H&R Developments or the Related Parties have no active management or which they do not control, (ii) any multi-tenant industrial properties (that are not built to suit) acquired by a corporation within H&R Developments which is controlled by members of the Rubinstein Family; (iii) certain industrial or office properties in which H&R Developments or the Related Parties at the time had an interest which are at least 50% owned by parties unrelated to the H&R Group or which at the time were under construction, (with respect to all of which the REIT has a first opportunity to purchase in the event of a sale, subject to the rights of tenants and co-owners); and (iv) retail properties which were at the time held directly or indirectly by the Related Parties. However, no exclusion limits the restriction on soliciting tenants described above.

## DESCRIPTION OF STAPLED UNITS

On October 1, 2008, the REIT completed the 2008 Reorganization pursuant to the Plan of Arrangement which was approved by the holders of REIT Units at a special meeting on September 19, 2008. The 2008 Reorganization resulted in the completion of certain transactions in the course of which each holder of REIT Units received, for each REIT Unit held, a Finance Trust Unit. Each issued and outstanding REIT Unit trades together with a Finance Trust Unit as a Stapled Unit on the TSX under the symbol “HR.UN”. 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 Declaration of Trust and the Finance Trust Declaration of Trust each contain provisions to achieve the “stapling” of the REIT Units and the Finance Trust Units until such time as an Event of Uncoupling occurs. (See “REIT Declaration of Trust and Description of REIT Units – Transferability and Stapling of REIT Units” and “Finance Trust Declaration of Trust and Description of Finance Trust Units”).

### **An Event of Uncoupling**

An “**Event of Uncoupling**” means an event whereby the REIT Units and the Finance Trust Units do not trade together on the TSX, an event that occurs only: (a) in the event that holders of REIT Units vote in favour of the uncoupling of REIT Units and Finance Trust Units such that the two securities will trade separately; or (b) at the sole discretion of the Finance Trust 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 (the latter being a “**Finance Trust Trustee Discretionary Event of Uncoupling**”).

### **Support Agreement**

*The following is a summary of certain provisions of the Support Agreement and does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the Support Agreement (as defined below), as filed on SEDAR.*

Pursuant to the provision of the REIT Declaration of Trust and the Finance Trust Declaration of Trust, 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 part of the Plan of Arrangement, the REIT and Finance Trust entered into an agreement made as of October 1, 2008, as amended and restated on May 29, 2009, (the “**Support Agreement**”) which provides, 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 Declaration of Trust, the Rights Plan, the Unit Option Plan, and the unitholder distribution reinvestment plan and unit purchase 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 the Convertible Indenture 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, signing 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 co-ordinate so as to ensure that each subscriber receives both REIT Units and Finance Trust 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 to be issued 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 holders of Finance Trust Units.

### **REIT Unitholders' Rights Plan**

*The following is a summary of certain provisions of the Rights Plan and does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the Rights Plan, as filed on SEDAR.*

On June 23, 2006, holders of REIT Units approved a unitholders' rights plan, which was amended and restated on October 1, 2008 in connection with the 2008 Reorganization and with the approval of holders of REIT Units, and was amended and restated as of May 15, 2009 (as amended from time to time, the "**Rights Plan**"). The Rights Plan utilizes the mechanism of the "Permitted Bid" (as described below) to ensure that a person seeking control of the REIT gives Unitholders and the REIT Trustees sufficient time to evaluate the bid, negotiate with the initial bidder and encourage competing bids to emerge. The purpose of the Rights Plan is to protect Unitholders by requiring all potential bidders to comply with the conditions specified in the Permitted Bid provisions or else such bidders are subject to the dilutive features of the Rights Plan. Generally, to qualify as a Permitted Bid, a bid must (i) be made to all Unitholders (other than the bidder), (ii) be open for 60 days after the bid is made and that after such period, the bidder may take up and pay for such Stapled Units only if more than 50% of the Stapled Units held by Independent Unitholders (as defined in the Rights Plan) are deposited or tendered to the bid and not withdrawn and (iii) be extended for a further period of ten days if (ii) above is met on the same terms to allow those Unitholders who did not initially tender their Stapled Units to tender to the bid if they so choose. Thus, there is no coercion to tender during the initial 60-day period because the bid must be open for acceptance for at least ten days after the expiry of the initial tender period.

The Rights Plan will terminate upon the termination of the annual meeting of the Unitholders to be held in 2012, unless terminated earlier. On October 1, 2008, one right (a "**Right**") was issued and attached to each outstanding Stapled Unit and each previously issued right to purchase one REIT unit was cancelled. One Right has attached and will also attach to any subsequently issued Stapled Units until the earlier of the "Separation Time" (as defined below) and the Expiration Time (as defined in the Rights Plan). The initial exercise price of the Rights is \$100 (the "**Exercise Price**"), subject to appropriate anti-dilution adjustments.

The issue of the Rights is not initially dilutive. Upon a "Flip-in Event" (as defined below) occurring and the Rights separating from the attached Stapled Units, reported earnings per Stapled Unit

on a fully diluted or non-diluted basis may be affected. Holders of Rights who do not exercise their Rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

The Rights will separate from the Stapled Units to which they are attached and will become exercisable at the time (the “**Separation Time**”) that is: (A) the close of business on the eighth trading day after the earliest of (i) the date of the first public announcement by the REIT, Finance Trust or an Acquiring Person (as defined below) of facts indicating that a person has become an Acquiring Person (the “**Stapled Unit Acquisition Date**”), (ii) the date of the commencement of or first public announcement of the intent of any person to commence a take-over bid other than a Permitted Bid or a “Competing Permitted Bid” (as defined in the Rights Plan), and (iii) the date upon which a Permitted Bid ceases to be such; or (B) such later date as may be determined by the REIT Trustees acting in good faith. From and after the Separation Time and prior to the Expiration Time (as defined in the Rights Plan), each Right (other than those held by the Acquiring Person) will permit the holder to purchase Stapled Units with a total market value equal to twice the Exercise Price for an amount in cash equal to the Exercise Price (i.e., at a 50% discount). Any Rights held by an Acquiring Person on or after the earlier of the Separation Time or the Stapled Unit Acquisition Date will become null and void upon the occurrence of a Flip-in Event.

The price at which a holder of a Right may purchase a Finance Trust Unit forming part of a Stapled Unit issuable upon exercise of such Right will be equal to the fair market value of a Finance Trust Unit at the time of the exercise of such Right, and such amount shall be payable by such holder, at the time of such exercise, to the REIT solely as agent for and on behalf of such holder so exercising such Right and the REIT shall pay such amount to Finance Trust on behalf of such holder in consideration of the issuance and delivery of the relevant Finance Trust Units to such holder. At all times this amount will be no less than the fair market value, from time to time, of a Finance Trust Unit, such that a Right holders’ right to acquire Finance Trust Units shall, in and of itself, have no value. The remainder of the exercise price payable by a holder of such Right will be payable to the REIT as the purchase price of the relevant REIT Units at the time of exercise of the Right.

The acquisition by a person (an “**Acquiring Person**”) of 20% or more of the outstanding Stapled Units (including Stapled Units held by “affiliates” and “associates” of such person (each as defined in the Rights Plan) and persons acting jointly or in concert with such person), other than by way of a Permitted Bid and other than certain limited circumstances described in the Rights Plan, is referred to as a “**Flip-in Event**”. A person is not deemed to beneficially own Stapled Units deposited or tendered pursuant to a permitted lock-up agreement or otherwise deposited or tendered pursuant to any take-over bid made by such person, such person’s affiliates and associates or persons acting jointly or in concert with such person, until such deposited or tendered Stapled Units have been either taken up or paid for.

If an Event of Uncoupling should occur, the Rights Plan will be read as a plan in respect of rights solely to acquire REIT Units and references to “Finance Trust”, the “Finance Trust Trustees” and “Finance Trust Units” will be disregarded.

## **REIT DECLARATION OF TRUST AND DESCRIPTION OF REIT UNITS**

*The following is a summary of certain provisions of the REIT Declaration of Trust and does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the REIT Declaration of Trust, as filed on SEDAR.*

## General

The REIT is an open-ended unincorporated investment trust created pursuant to the REIT Declaration of Trust and governed by the laws of the Province of Ontario. See also “Investment Guidelines and Operating Policies of the REIT”.

## REIT Units

The beneficial interests in the REIT are divided into a single class of REIT Units. The aggregate number of REIT Units which the REIT may issue is unlimited. Each REIT Unit represents an equal undivided interest in the REIT with all outstanding REIT Units. No REIT Unit has any preference or priority over another. The legal ownership of the assets of the REIT and the right to conduct the affairs of the REIT are vested exclusively in the REIT Trustees and no Unitholder has or is deemed to have any right of ownership in any of the assets of the REIT. Each REIT Unit confers the right to one vote at any meeting of Unitholders and to participate *pro rata* in any distributions by the REIT and, in the event of termination of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. Subject to applicable regulatory approval, the issued and outstanding REIT Units may be subdivided or consolidated from time to time by the REIT Trustees without Unitholder approval. No certificates for fractional REIT Units will be issued and fractional REIT Units will not entitle the holders thereof to vote except to the extent that they may represent in the aggregate one or more whole REIT Units.

## Transferability and Stapling of REIT Units

Provided that an Event of Uncoupling has not occurred: (a) each REIT Unit may be transferred only together with a Finance Trust Unit, (b) no REIT Unit may be issued by the REIT to any person unless (i) a Finance Trust Unit is simultaneously issued to such person, or (ii) the REIT has arranged that REIT Units will be consolidated (subject to any applicable regulatory approval) immediately after such issuance, such that each holder of a REIT Unit will hold an equal number of REIT Units and Finance Trust Units immediately following such consolidation, and (c) a Unitholder may require the REIT to redeem any particular number of REIT Units only if it also requires, at the same time, and in accordance with the provisions of the Finance Trust Declaration of Trust, Finance Trust to redeem that same number of Finance Trust Units.

Provided that an Event of Uncoupling has not occurred, in the event that Finance Trust: (i) subdivides, redivides or changes the then outstanding Finance Trust Units into a greater number of Finance Trust Units; or (ii) reduces, combines, consolidates or changes the then outstanding Finance Trust Units into a lesser number of Finance Trust Units; or (iii) reclassifies or otherwise changes the Finance Trust Units (collectively, a “**Change to the Finance Trust Units**”), the REIT (subject to any applicable regulatory approval) shall cause a corresponding change to simultaneously be made to, or in, the rights of the holders of the REIT Units unless such Change to the Finance Trust Units does not result in a holder of a Finance Trust Unit holding an unequal number of Finance Trust Units and REIT Units, or is a distribution by Finance Trust of Finance Trust Units which is followed immediately by a consolidation after which each holder of REIT Units holds an equal number of Finance Trust Units.

## Purchases of REIT Units

The REIT may from time to time purchase REIT Units for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies provided that, if an Event of Uncoupling has not occurred, Finance Trust purchases for cancellation a corresponding number of Finance Trust Units in accordance with the provisions of the Finance Trust Declaration of Trust. Any REIT Unit acquired by the REIT, whether by purchase for

cancellation or otherwise, shall be cancelled upon receipt, shall no longer be outstanding and shall not be reissued.

### **Redemption of REIT Units**

The right of redemption provides Unitholders with a right to require the REIT to redeem their REIT Units on demand upon delivery to the REIT of a duly completed and properly executed notice requesting redemption. Upon receipt of the redemption request by the REIT, the Unitholder will thereafter cease to have any rights with respect to each REIT Unit tendered for redemption other than to receive the “REIT Unit Redemption Price” (as defined below).

Provided that no Event of Uncoupling has occurred, a Unitholder who tenders a REIT Unit for redemption shall be required to also tender for redemption a corresponding Finance Trust Unit in accordance with the provisions of the Finance Trust Declaration of Trust.

#### ***REIT Unit Redemption Price and Payment***

Provided that no Event of Uncoupling has occurred, the “**REIT Unit Redemption Price**” is the price per REIT Unit equal to the amount by which the lesser of: (i) 90% of the “market price” (as defined in the REIT Declaration of Trust) of a Stapled Unit during the 10-trading day period commencing immediately prior to the date on which the REIT Unit is tendered to the REIT for redemption (the “**REIT Unit Redemption Date**”); and (ii) the “closing market price” (as defined in the REIT Declaration of Trust) of a Stapled Unit on the REIT Unit Redemption Date, exceeds an amount equal to the Canadian dollar equivalent (determined using the exchange rate posted on such date to convert U.S. currency to Canadian currency by a bank as selected by the REIT) of the outstanding principal amount of U.S. Holdco Notes as of REIT Unit Redemption Date, divided by the total number of Finance Trust Units issued and outstanding immediately prior to the REIT Unit Redemption Date.

The aggregate redemption price payable by the REIT in respect of any REIT Units surrendered for redemption during a particular calendar month will be satisfied by the mailing to the redeeming Unitholder of a payment by cheque no later than the last day of the month following the month during which the REIT Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their REIT Units is subject to the conditions that: (i) the total amount payable by the REIT in respect of those REIT Units and all other REIT Units tendered for redemption in the same calendar month does not exceed \$50,000 (subject to certain adjustments and provided that the REIT Trustees may, in their sole discretion, waive this limitation in respect of all REIT Units tendered for redemption in any calendar month); (ii) at the time the REIT Units are tendered for redemption, the outstanding Stapled Units are listed for trading or quoted on any stock exchange or market which, in the sole discretion of the REIT Trustees, provides representative fair market value prices for the Stapled Units; and (iii) the normal trading of Stapled Units is not suspended or halted on any stock exchange on which the Stapled Units are listed (or, if not so listed, on any market on which the Stapled Units are quoted for trading) on the REIT Unit Redemption Date or for more than five trading days during the ten-day trading period commencing immediately prior to such date.

If a Unitholder is not entitled to receive cash upon the redemption of REIT Units as a result of one or more of the foregoing conditions, then each REIT Unit tendered for redemption will, subject to any applicable regulatory approvals, be redeemed by way of a distribution *in specie* of notes of HRP Trust. The notes will be issued pursuant to a note indenture between HRP Trust and CIBC Mellon Trust Company which provides for the issuance of interest bearing unsecured subordinated notes of HRP Trust. The notes will be issuable in four series, in denominations to be determined by the REIT Trustees, and will bear interest from the date of issue at rates stipulated in the note indenture. In the event of an *in*

*specie* distribution of notes on redemption of a REIT Unit, a Unitholder may receive series 2, series 3 or series 4 notes of HRP Trust, or a combination thereof, in the REIT Trustees' discretion, in an aggregate amount equal to the fair market value of the REIT Units tendered for redemption, as determined by the REIT Trustees. No fractional notes of HRP Trust in integral multiples of less than \$100 (or such other lower amount as the REIT Trustees may establish from time to time) will be delivered and, where the amount of notes of HRP Trust to be received by a redeeming Unitholder includes a fraction or a multiple less than \$100, that number shall be rounded to the next lowest whole number or integral multiple of \$100. The series 2, series 3 and series 4 notes of HRP Trust will bear interest at prime rate plus 1% and will mature, respectively, within one year, in twenty-five years and in twenty-five years of their date of issue. The REIT and HRP Trust have entered into a redemption funding agreement under which the REIT will provide HRP Trust with sufficient cash or other assets or a combination thereof to support the principal amount of any series 4 notes to be issued in connection with an *in specie* redemption of REIT Units.

### **Take-over Bids**

The REIT Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Stapled Units within the meaning of the *Securities Act* (Ontario) and not less than 90% of the Stapled Units (other than Stapled Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Stapled Units held by Unitholders who did not accept the offer either, at the election of such Unitholders, on the terms offered by the offeror or at the fair value of such Unitholders' Stapled Units determined in accordance with the procedures set out in the REIT Declaration of Trust.

### **Meetings of REIT Unitholders**

The REIT Declaration of Trust provides that meetings of Unitholders must be called and held for the appointment, election or removal of REIT Trustees, the appointment or removal of the auditors of the REIT, the approval of amendments to the REIT Declaration of Trust (except as described under “— Amendments to REIT Declaration of Trust”), the uncoupling of Stapled Units to provide for separate trading of the REIT Units and the Finance Trust Units (except as provided for in the case of a Finance Trust Trustee Discretionary Event of Uncoupling), the sale or transfer of the assets of the REIT as an entirety or substantially as an entirety (other than as part of an internal reorganization of the assets of the REIT as approved by the REIT Trustees) and the termination of the REIT. Meetings of Unitholders will be called and held annually for the election of the REIT Trustees and the appointment of auditors of the REIT and for transacting such other business as the REIT Trustees may determine or as may properly be brought before the meeting, and may be held at the same time and place as the annual meeting of holders of Finance Trust Units.

A meeting of Unitholders may be convened at any time and for any purpose by the REIT Trustees and must be convened, except in certain circumstances, if requisitioned by Unitholders holding in the aggregate not less than 5% of the REIT Units then outstanding. A requisition must state in writing and in reasonable detail the business proposed to be transacted at the meeting. Unitholders have the right to obtain a list of registered Unitholders to the same extent and upon the same conditions as those which apply to shareholders of a corporation governed by the CBCA.

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. The REIT Declaration of Trust contains provisions as to quorum, the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

## **Issuance of REIT Units**

The REIT may issue, from time to time, new REIT Units (subject to the provisions noted at “– Transferability and Stapling of REIT Units” and “– Limitation on Non-Resident Ownership”), and rights, warrants, and options to subscribe for fully paid REIT Units (“**Other Securities**”), in such manner, for the consideration, and to such persons or class of persons that the REIT Trustees determine. Provided that an Event of Uncoupling has not occurred, the REIT Trustees may create and issue rights, warrants, or options to acquire Finance Trust Units from Finance Trust and may incur indebtedness exchangeable at the option of the creditor for Stapled Units. Unitholders do not have any pre-emptive rights whereby additional REIT Units proposed to be issued must first be offered to existing Unitholders. In addition to REIT Units or options which may be issued pursuant to the Unit Option Plan, unitholder distribution reinvestment plan and unit purchase plan, or the Rights Plan, new REIT Units or Other Securities may be issued through public offerings, through rights offerings to existing Unitholders (i.e., offerings in which Unitholders receive rights to subscribe for new REIT Units or Other Securities in proportion to their existing holdings of REIT Units or Other Securities, which rights may be exercised or sold to other investors), through private placements (i.e., offerings to specific investors which are not made generally available to the public or existing Unitholders) or as a result of conversion or subscription rights exercised under Other Securities. REIT Units may be also issued in satisfaction of any non-cash distribution of the REIT to Unitholders where the REIT Trustees determine that the REIT does not have available cash to fund such distribution (subject to the provisions noted at “– Transferability and Stapling of REIT Units” and “– Limitation on Non-Resident Ownership”) or pursuant to an extraordinary distribution of REIT Units as declared by the REIT Trustees. In certain instances, the REIT may also issue new REIT Units as consideration for the acquisition of new properties or assets. The price or the value of the consideration for which REIT Units may be issued will be determined by the REIT Trustees, generally in consultation with investment dealers or brokers who may act as underwriters or agents in connection with offerings of REIT Units.

## **Limitation on Non-Resident Ownership**

At no time may Non-Residents be the beneficial owners of 49% or more of the REIT Units and the REIT Trustees have informed the transfer agent and registrar of this restriction. The transfer agent and registrar may require declarations as to the jurisdictions in which beneficial owners of REIT Units are resident. If the transfer agent and registrar become aware, as a result of requiring such declarations as to beneficial ownership, that the beneficial owners of 49% or more of the REIT Units then outstanding are, or may be, Non-Residents or that such a situation is imminent, the transfer agent and registrar will advise the REIT Trustees and, upon receiving direction from the REIT Trustees, may make a public announcement thereof and shall not accept a subscription for REIT Units from or issue or register a transfer of REIT Units to a person unless the person provides a declaration that the person is not a Non-Resident. If, notwithstanding the foregoing, the transfer agent and registrar determine that 49% or more of the REIT Units are held by Non-Residents, the transfer agent and registrar may, upon receiving a direction and suitable indemnity from the REIT Trustees, send a notice to registered Unitholders who are Non-Residents, chosen in inverse order to the order of acquisition or registration or in such manner as the REIT Trustees may consider equitable and practicable, requiring them to sell their Stapled Units or a portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Stapled Units or provided the REIT Trustees with satisfactory evidence that they are not Non-Residents within such period, the transfer agent and registrar, upon receiving such a direction from the REIT Trustees, may on behalf of such Unitholders sell such Stapled Units and, in the interim, shall suspend the voting and distribution rights attached to the REIT Units forming part of such Stapled Units. Upon such sale the affected holders shall cease to be Unitholders and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificate representing such Stapled Units.

Under the current provisions of the Tax Act, the REIT will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents of Canada. On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act relating to the circumstances under which the ownership of units of a trust by persons who are non-residents of Canada and partnerships other than Canadian partnerships would cause the trust to lose its status as a mutual fund trust. Under the draft amendments, a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more persons who are non-residents of Canada or partnerships that are not Canadian partnerships is more than 50% of the aggregate fair market value of all the units issued by the trust. A partnership will only qualify as a Canadian partnership at a particular time if all of its members at that time are resident in Canada. The draft amendments did not provide any means of rectifying a loss of mutual fund trust status such that if, at any time, the REIT were to lose its mutual fund trust status as a result of the application of the draft amendments, the REIT would permanently cease to be a mutual fund trust. On December 6, 2004, the Minister of Finance (Canada) tabled a Notice of Ways and Means Motion which did not include these draft amendments, and it is counsel to the REIT's understanding that further discussions will take place with the private sector before a decision is made concerning whether the draft amendments will be enacted. On October 1, 2008, as part of the 2008 Reorganization, the REIT Declaration of Trust was amended to take into account these new restrictions.

### **Information and Reports**

Within such time period as is acceptable under securities legislation and at least 21 days prior to each annual meeting of Unitholders, the REIT Trustees shall send to each Unitholder a report, including audited comparative financial statements for such year, prepared in compliance with applicable securities laws. Within such time period as is acceptable under securities legislation and after the end of each of the first three fiscal quarters of each year, the REIT Trustees shall send unaudited comparative financial statements for the period then ended to each Unitholder. The REIT Trustees will supply Unitholders with any information that may be required by them in connection with their obligations under the Tax Act and equivalent provincial legislation.

Notice of all meetings of the Unitholders will be mailed or delivered by the REIT Trustees to each Unitholder at his address appearing in the Stapled Unit register, to each REIT Trustee and to the auditors of the REIT not less than 21 nor more than 50 days before the meeting. Notice of any meeting of the Unitholders will state the purposes of the meeting.

### **Amendments to REIT Declaration of Trust**

The REIT Declaration of Trust may be amended or altered from time to time. The following amendments require approval by at least two-thirds of the votes cast at a meeting of the Unitholders: (i) to change a right with respect to any outstanding REIT Units to reduce the amount payable thereon upon termination of the REIT or to diminish or eliminate any voting rights pertaining thereto; (ii) any amendment to the duration or termination provisions of the REIT; (iii) any amendment relating to the provisions relating to staggered terms of the REIT Trustees; (iv) any amendment relating to the powers, duties, obligations, liabilities or indemnification of the REIT Trustees; (v) the uncoupling of Stapled Units to provide for separate trading of the REIT Units and the Finance Trust Units (except as provided for in the case of a Finance Trust Trustee Discretionary Event of Uncoupling); (vi) any sale or transfer of the REIT as an entirety or substantially as an entirety; and (vii) certain other amendments as described in the REIT Declaration of Trust. Other amendments to the REIT Declaration of Trust require approval by a majority of the votes cast at a meeting of the Unitholders called for such purpose.

The REIT Trustees may, without the approval of the Unitholders, make certain amendments to the REIT Declaration of Trust, including amendments:

- for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the REIT Trustees or over the REIT, its status as a “mutual fund trust” and a “registered investment” under the Tax Act or the distribution of REIT Units,
- which, in the opinion of the REIT Trustees, provide additional protection for the Unitholders,
- to remove any conflicts or inconsistencies in the REIT Declaration of Trust or to make minor corrections which are, in the opinion of REIT Trustees, necessary or desirable and not prejudicial to the Unitholders,
- which, in the opinion of the REIT Trustees, are necessary or desirable (i) as a result of changes in taxation laws from time to time which may affect the REIT, the Unitholders or annuitants under a plan of which a Unitholder acts as trustee or carrier, or to qualify for a particular status under taxation laws including to qualify as a “real estate investment trust” for purposes of the Tax Act or to otherwise prevent the REIT or any of its subsidiaries from becoming subject to SIFT Tax, or (ii) as a result of changes in accounting standards (including the implementation of IFRS) from time to time which may affect the REIT, the Unitholders or annuitants under a plan of which a Unitholder acts as trustee or carrier, and
- for any purpose (except one in respect of which a Unitholder vote is specifically otherwise required) if the REIT Trustees are of the opinion that the amendment is not prejudicial to Unitholders and is necessary or desirable.

### **Term of the REIT and Sale of Substantially All Assets**

The REIT has been established for an indefinite term. Pursuant to the REIT Declaration of Trust, termination of the REIT or the sale or transfer of the assets of the REIT as an entirety or substantially as an entirety (other than as part of an internal reorganization of the assets of the REIT as approved by the REIT Trustees) requires approval by at least two-thirds of the votes cast at a meeting of the Unitholders.

### **Rights of Unitholders**

The rights of Unitholders, with respect to REIT Units held, are set out in the REIT Declaration of Trust. Although the REIT Declaration of Trust confers upon a Unitholder many of the same protections, rights and remedies an investor would have as a shareholder of a corporation governed by the CBCA, there are significant differences, some of which are discussed below.

Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken. As an alternative, Unitholders seeking to terminate their investment in the REIT are entitled to require the REIT to redeem their REIT Units through the exercise of the redemption rights provided by the REIT Declaration of Trust, subject to certain conditions and limitations, as described under “– Redemption of REIT Units” above. Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or disregard the interests

of securityholders and certain other parties. Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders could rely only on the general provisions of the REIT Declaration of Trust which permit the winding up of the REIT with the approval of at least two-thirds of the votes cast at a meeting of Unitholders called for that purpose.

The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The REIT Declaration of Trust does not include a comparable right of Unitholders to commence or participate in legal proceedings with respect to the REIT.

## **DESCRIPTION OF CONVERTIBLE DEBENTURES**

*The following is a summary of the material attributes and characteristics of the Convertible Debentures and does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of the Convertible Trust Indenture as filed on SEDAR.*

*The Convertible Trust Indenture authorizes the REIT to issue an unlimited aggregate principal amount of debt securities in one or more series. Each such issue, other than the initial series of 2013 Convertible Debentures, will be made by way of a supplemental indenture which will set out the terms of the relevant series of debt securities. The REIT may, from time to time, without the consent of the holders of Convertible Indenture Debentures, issue additional debentures of a different series under the Convertible Trust Indenture as supplemented by further supplemental trust indentures from time to time.*

*In addition, the following summary of the material terms of the Convertible Debentures gives effect to the operation of the Support Agreement (see “Description of Stapled Units — Support Agreement”) and the REIT Units and Finance Trust Units being listed and posted for trading together as Stapled Units.*

### **General**

In June 2008, the REIT issued \$115 million principal amount of 2013 Convertible Debentures pursuant to an indenture dated June 6, 2008 entered into between the REIT and the Debenture Trustee (as supplemented from time to time, the “**Convertible Trust Indenture**”) which governs the Convertible Indenture Debentures. The 2013 Convertible Debentures mature on June 30, 2013 and are listed on the TSX and commenced trading under the symbol “HR.DB” on June 6, 2008.

In July 2009, the REIT issued \$150 million principal amount of the 2014 Convertible Debentures pursuant to the Convertible Trust Indenture. The 2014 Convertible Debentures mature on December 31, 2014 and are listed on the TSX and commenced trading under the symbol “HR.DB.B” on July 30, 2009.

In December 2009, the REIT issued \$175 million principal amount of the 2017 Convertible Debentures pursuant to the Convertible Trust Indenture. The 2017 Convertible Debentures mature on June 30, 2017 and are listed on the TSX and commenced trading under the symbol “HR.DB.C” on December 30, 2009.

In July 2010, the REIT issued \$100 million principal amount of the 2020 Convertible Debentures pursuant to the Convertible Trust Indenture. The 2020 Convertible Debentures mature on June 30, 2020 and are listed on the TSX and commenced trading under the symbol “HR.DB.D” on July 27, 2010.

## Interest

The Convertible Debentures bear interest at an annual rate of 6.65% (with respect to the 2013 Convertible Debentures), 6.75% (with respect to the 2014 Convertible Debentures), 6.00% (with respect to the 2017 Convertible Debentures) and 5.90% (with respect to the 2020 Convertible Debentures), payable semi-annually in arrears on June 30 and December 31 in each year. At the option of the REIT and subject to applicable law, the REIT may deliver Stapled Units to be sold on behalf of the REIT in order to raise funds to satisfy all or any part of the REIT's obligations to pay interest on the Convertible Debentures, but, in any event, the holders of Convertible Debentures will be entitled to receive cash payments equal to the interest payable on the Convertible Debentures. See “– Method of Payment – Interest Payment Election”.

## Subordination

The Convertible Debentures are direct unsecured obligations of the REIT, subordinated in right of payment to all present and future senior indebtedness of the REIT. Each Convertible Debenture will rank *pari passu* with each other Convertible Debenture of the same series (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, with all other present and future subordinated and unsecured indebtedness of the REIT except for sinking fund provisions (if any) applicable to different series of debentures or other similar types of obligations of the REIT.

Neither the Convertible Trust Indenture nor the Convertible Debentures will limit the ability of the REIT to incur additional indebtedness, including indebtedness that ranks senior to the Convertible Debentures, or from mortgaging, pledging or charging its properties to secure any indebtedness. The Convertible Trust Indenture does not limit the aggregate principal amount of Convertible Indenture Debentures that may be outstanding from time to time and the REIT may, from time to time, without the consent of the holders of Convertible Indenture Debentures, issue additional Convertible Indenture Debentures of a different series, in addition to the Convertible Debentures.

## Conversion Rights

Each Convertible Debenture is convertible into Stapled Units, at the option of the holder, at any time prior to 5:00 p.m. (Toronto time) on the earlier of (i) the respective Convertible Debenture 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 of \$23.11 per Stapled Unit with respect to the 2013 Convertible Debentures, \$14.00 per Stapled Unit with respect to the 2014 Convertible Debentures, \$19.00 per Stapled Unit with respect to the 2017 Convertible Debentures, and \$23.50 per Stapled Unit with respect to the 2020 Convertible Debentures, being a conversion rate of approximately 43.2713 Stapled Units per \$1,000 principal amount of 2013 Convertible Debentures, 71.4286 Stapled Units per \$1,000 principal amount of 2014 Convertible Debentures, 52.6313 Stapled Units per \$1,000 principal amount of 2017 Convertible Debentures, and 42.5532 Stapled Units per \$1,000 principal amount of 2020 Convertible Debentures, subject in each case to adjustment upon the occurrence of certain events in accordance with the Convertible Trust Indenture. No adjustment will be made for distributions on Stapled Units issuable upon conversion of or interest accrued and unpaid on Convertible Debentures surrender for conversion; however, in the event that distributions have been (or notice has been given of such suspension) suspended, then in addition to the applicable number of Stapled Units to be received on conversion, a holder of Convertible Debentures will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion to the date of conversion.

## Redemption

The 2013 Convertible Debentures will not be redeemable on or before June 30, 2011, except upon the satisfaction of certain conditions after a change of control involving the acquisition, by any person or persons acting jointly or in concert, of voting control or direction over an aggregate of 66<sup>2</sup>/<sub>3</sub>% or more of the then outstanding Stapled Units or securities convertible into or carrying the right to acquire Stapled Units (a “**Change of Control**”) (see “– Put Right Upon a Change of Control”). After June 30, 2011 and prior to the Convertible Debenture Maturity Date, the 2013 Convertible Debentures will be redeemable at the REIT’s sole option, in whole at any time or in part from time to time, at a price equal to the principal amount thereof, plus accrued and unpaid interest, provided that, for the period after June 30, 2011 and prior to June 30, 2012, the 2013 Convertible Debentures will be redeemable only if the “Current Market Price” (as defined in the Convertible Trust Indenture) calculated on the date on which notice of redemption is given is not less than 125% of the 2013 Convertible Debenture conversion price.

The 2014 Convertible Debentures will not be redeemable on or before July 30, 2012, except upon the satisfaction of certain conditions after a Change of Control has occurred (see “– Put Right Upon a Change of Control”). After July 30, 2012 and prior to July 30, 2013, the 2014 Convertible Debentures will be redeemable at the REIT’s sole option, in whole at any time or in part from time to time, at a price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the “Current Market Price” (as defined in the Convertible Trust Indenture) calculated on the date on which notice of redemption is given is not less than 125% of the 2014 Convertible Debenture conversion price. On or after July 30, 2013 and prior to the Convertible Debenture Maturity Date, the 2014 Convertible Debentures will be redeemable at the REIT’s sole option, in whole at any time or in part from time to time, at a price equal to the principal amount thereof, plus accrued and unpaid interest.

The 2017 Convertible Debentures will not be redeemable on or before June 30, 2013, except upon the satisfaction of certain conditions after a Change of Control has occurred (see “– Put Right Upon a Change of Control”). After June 30, 2013 and prior to June 30, 2015, the 2017 Convertible Debentures will be redeemable at the REIT’s sole option, in whole at any time or in part from time to time, at a price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the “Current Market Price” (as defined in the Convertible Trust Indenture) calculated on the date on which notice of redemption is given is not less than 125% of the 2017 Convertible Debenture conversion price. On or after June 30, 2015 and prior to the Convertible Debenture Maturity Date, the 2017 Convertible Debentures will be redeemable at the REIT’s sole option, in whole at any time or in part from time to time, at a price equal to the principal amount thereof, plus accrued and unpaid interest.

The 2020 Convertible Debentures will not be redeemable on or before June 30, 2014, except upon the satisfaction of certain conditions after a Change of Control has occurred (see “– Put Right Upon a Change of Control”). After June 30, 2014 and prior to June 30, 2016, the 2020 Convertible Debentures will be redeemable at the REIT’s sole option, in whole at any time or in part from time to time, at a price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the “Current Market Price” (as defined in the Convertible Trust Indenture) calculated on the date on which notice of redemption is given is not less than 125% of the 2020 Convertible Debenture conversion price. On or after June 30, 2016 and prior to the Convertible Debenture Maturity Date, the 2020 Convertible Debentures will be redeemable at the REIT’s sole option, in whole at any time or in part from time to time, at a price equal to the principal amount thereof, plus accrued and unpaid interest.

Any Convertible Debentures redeemed by the REIT will be cancelled and will not be reissued.

In the case of redemption of less than all of any series of Convertible Debentures, the Convertible Debentures of such series to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis to

the nearest multiple of \$1,000 in such manner as the Debenture Trustee deems equitable, subject to any necessary TSX approval.

### **Put Right Upon a Change of Control**

Upon the occurrence of a Change of Control, each holder of Convertible Debentures may require the REIT to purchase, on the date which is 30 days following the date upon which the Debenture Trustee delivers a notice of a Change of Control (received from the REIT) to the holders of Convertible Debentures (the “**Put Date**”), all or any part of such holder’s Convertible Debentures at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest up to but excluding the Put Date. If 90% or more in aggregate principal amount of any series of Convertible Debentures outstanding on the date the REIT provides notice of a Change of Control to the Debenture Trustee have been tendered for purchase on the Put Date, the REIT has the right to redeem all the remaining Convertible Debentures of such series on the same terms on such date.

### **Method of Payment**

#### ***Payment of Principal on Redemption or at Maturity***

On redemption or at maturity of any series of Convertible Debentures, the REIT will repay the indebtedness represented by the Convertible Debentures of such series by paying to the Debenture Trustee an amount required to repay the principal amount of the outstanding Convertible Debentures of such series, together with accrued and unpaid interest thereon. The REIT may, at its option, subject to applicable regulatory approval and provided no event of default has occurred and is continuing, elect to satisfy its obligation to repay all or any portion of the principal amount that are to be redeemed or that are to mature by delivering freely tradeable Stapled Units to the holders of Convertible Debentures. The number of Stapled Units to be delivered in respect of each Convertible Debenture will be determined by dividing the principal amount of the Convertible Debentures that are to be redeemed or that are to mature, as the case may be, by 95% of the Current Market Price (as defined in the Convertible Trust Indenture) on the date fixed for redemption or the maturity date, as the case may be.

#### ***Interest Payment Election***

Subject to receiving any required regulatory approvals, provided it is not in default under the Convertible Trust Indenture, the REIT may elect, from time to time, to satisfy its obligation to pay interest on the Convertible Debentures by directing the Debenture Trustee, by way of notice, to, among other things: (i) accept delivery from the REIT of a sufficient number of Stapled Units required to satisfy all or any part of the interest obligation; (ii) receive bids with respect to, and facilitate settlement of the sales of such Stapled Units; and (iii) invest the proceeds of such sales on the direction of the REIT in Canadian government obligations that mature prior to the applicable interest payment date, and use the proceeds received from such government securities, together with any proceeds from the sale of Stapled Units not invested as aforesaid, to satisfy the applicable interest obligation. Neither the REIT’s making of such an interest payment election nor the consummation of sales of Stapled Units will entitle holders of Convertible Debentures to receive any Stapled Units in satisfaction of the applicable interest obligation.

### **Events of Default and Waiver**

If an event of default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon the request of holders of not less than 25% of the aggregate principal amount of the Convertible Trust Indenture Debentures, declare the principal, interest on all Convertible Trust Indenture Debentures and all other monies outstanding to be due and payable.

The Debenture Trustee, so long as it has not become bound to declare the principal and interest on Convertible Indenture Debentures to be due and payable, or to obtain or enforce payment of the same, shall have the power to waive any event of default if, in the Debenture Trustee's opinion, the default shall have been cured or adequate provision made therefor.

### **Limitation on Non-Resident Ownership**

At no time may Non-Residents be the beneficial owners of more than 49% of the Stapled Units (on either a basic or fully-diluted basis and including, for greater certainty, the Convertible Indenture Debentures) whether by way of conversion of Convertible Indenture Debentures to Stapled Units, repayment of Convertible Indenture Debentures by issuance of Stapled Units, or otherwise (see also "REIT Declaration of Trust and Description of REIT Units – Limitation on Non-Resident Ownership" and "Finance Trust Declaration of Trust and Description of Finance Trust Units").

The Debenture Trustee may, upon receipt of written direction of the REIT, require declarations as to the jurisdictions in which beneficial owners of Convertible Indenture Debentures are resident. If the REIT becomes aware as a result of requiring such declarations as to beneficial ownership, that the beneficial owners of 49% of the Stapled Units (on either a basic or fully-diluted basis) then outstanding are, or may be, Non-Residents or that such a situation is imminent, it may make a public announcement thereof and shall notify the Debenture Trustee in writing and the Debenture Trustee shall not register a transfer of Convertible Indenture Debentures to a person unless the person provides a declaration that the person is not a Non-Resident. If, notwithstanding the foregoing, the REIT determines that a majority of the Stapled Units, on a fully diluted basis and including, for greater certainty, the Convertible Indenture Debentures, are held by Non-Residents, the REIT may send a notice to Non-Resident holders of Convertible Indenture Debentures, chosen in inverse order to the order of acquisition or registration of the Convertible Indenture Debentures or in such manner as the REIT may consider equitable and practicable, requiring them to sell their Convertible Indenture Debentures or a portion thereof within a specified period of not more than 60 days. If the holders of Convertible Indenture Debentures receiving such notice have not sold the specified number of Convertible Indenture Debentures or provided the REIT with satisfactory evidence that they are not Non-Residents within such period, the REIT may send a notice to such holder of Convertible Indenture Debentures requiring such holder to promptly surrender the certificates representing such Convertible Indenture Debentures (and such holder shall surrender such certificates) and upon receipt of such certificates, the REIT shall sell or cause to be sold such Convertible Indenture Debentures to a person or persons that are not Non-Residents on behalf of such holder of Convertible Indenture Debentures. Pending such sale, all rights attaching to such Convertible Indenture Debentures (including any right to receive payments of interest) shall be immediately suspended upon the sending of such notice, and the rights of such holder of Convertible Indenture Debentures in respect of such Convertible Indenture Debentures shall be limited to receiving the net proceeds of sale (net of any applicable withholding tax).

### **DESCRIPTION OF SENIOR DEBENTURES**

*The following is a summary of the material attributes and characteristics of the Senior Debentures and does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of the Senior Trust Indenture as filed on SEDAR.*

*The Senior Trust Indenture authorizes the REIT to issue an unlimited aggregate principal amount of debt securities in one or more series. Each such issue, other than the initial series of Series A Senior Debentures and Series B Senior Debentures, will be made by way of a supplemental indenture which will set out the terms of the relevant series of debt securities. The REIT may, from time to time, without the consent of the holders of Senior Indenture Debentures, issue additional debentures of a different series*

*under the Senior Trust Indenture as supplemented by further supplemental trust indentures from time to time.*

## **General**

In February 2010, the REIT issued \$115 million principal amount of Series A Senior Debentures and \$115 million principal amount of Series B Senior Debentures pursuant to an indenture dated February 3, 2010 entered into between the REIT and the Debenture Trustee (as supplemented from time to time, the “**Senior Trust Indenture**”) which governs the Senior Indenture Debentures. The Series A Senior Debentures mature on February 3, 2015 and the Series B Senior Debentures mature on February 3, 2017.

In September 2010, the REIT issued \$125 million principal amount of the Series C Senior Debentures pursuant to the Senior Trust Indenture. The Series C Senior Debentures mature on December 1, 2018.

In January 2011, the REIT issued \$180 million principal amount of the Series D Senior Debentures pursuant to the Senior Trust Indenture. The Series D Senior Debentures mature on July 27, 2016.

The Senior Debentures are direct senior unsecured obligations of the REIT and ranks equally and rateably with each other Senior Debenture and with all other unsecured and unsubordinated indebtedness of the REIT, except to the extent prescribed by law. The Senior Trust Indenture does not limit the aggregate principal amount of Senior Indenture Debentures that may be outstanding from time to time and the REIT may, from time to time, without the consent of the holders of Senior Debentures, issue additional Senior Indenture Debentures under the Senior Trust Indenture, in addition to the Senior Debentures.

## **Interest**

The Senior Debentures bear interest at an annual rate of 5.20% (with respect to the Series A Senior Debentures), 5.90% (with respect to the Series B Senior Debentures), 5.00% (with respect to the Series C Senior Debentures) and 4.78% (with respect to the Series D Senior Debentures), payable semi-annually in arrears on, in the case of the Series A Senior Debentures and the Series B Senior Debentures, February 3 and August 3 in each year, in the case of the Series C Senior Debentures, June 1 and December 1 in each year, and in the case of the Series D Senior Debentures, January 27 and July 27 in each year.

## **Redemption**

The REIT may redeem any series of Senior Debentures, in whole at any time, or in part from time to time, prior to maturity on payment of a redemption price equal to the greater of (i) the Canada Yield Price and (ii) par, together in each case with accrued and unpaid interest to the date fixed for redemption. Where less than all of any series of Senior Debentures are to be redeemed pursuant to their terms, the Senior Debentures of such series to be redeemed will be redeemed on a pro rata basis according to the principal amount of Senior Debentures of such series registered in the respective name of each holder of Senior Debentures of such series or in such other manner as the Debenture Trustee may consider equitable.

## Purchase of Senior Debentures

The REIT may at any time and from time to time purchase all or any Senior Debentures in the market (which will include purchases from or through an investment dealer or a firm holding membership on a recognized stock exchange) or by invitation to tender or private contract at any price. Senior Debentures that are so purchased will be cancelled and no Senior Debentures will be issued in substitution therefor.

## Certain Senior Trust Indenture Covenants

The Senior Trust Indenture contains covenants in favour of holders of the Senior Debentures, including the following:

### *Consolidated EBITDA to Adjusted Interest Expense Ratio*

For each reference period, the REIT will ensure the maintenance of a ratio of Consolidated EBITDA of the REIT and Finance Trust to Adjusted Interest Expense of the REIT and Finance Trust of not less than 1.65:1.

### *Restrictions on Additional Indebtedness*

The REIT will not incur or assume, or permit any subsidiary to incur or assume, any indebtedness, except for certain permitted indebtedness (as described in the Senior Trust Indenture) unless the quotient (expressed as a percentage) obtained by dividing Consolidated Indebtedness of the REIT and Finance Trust by aggregate assets of the REIT and Finance Trust, calculated on a pro forma basis as described below (the “**Indebtedness Percentage**”), would be less than or equal to 65%.

The Senior Trust Indenture provides that the Indebtedness Percentage will be calculated on a pro forma basis as at the date of the REIT’s and Finance Trust’s most recently published balance sheets giving effect to the incurrence of the indebtedness to be incurred or assumed and the application of the proceeds therefrom and to any other event that has increased or decreased Consolidated Indebtedness of the REIT and Finance Trust or aggregate assets of the REIT and Finance Trust since the balance sheet date to the date of calculation.

### *Equity Maintenance*

The REIT will ensure the maintenance of an Adjusted Unitholders’ Equity of the REIT and Finance Trust of not less than \$1 billion, determined as at the date of the REIT’s and Finance Trust’s most recently published balance sheets.

## Change of Control

In the event of an acquisition by a person, or group of persons acting jointly or in concert, of REIT Units (and/or securities convertible into REIT Units) representing (on a diluted basis, but only giving effect to the conversion or exercise of convertible securities held by such person or group of persons) greater than 50% of REIT Units (a “**Change of Control**”), the holders of Senior Debentures may require the REIT to repurchase their Senior Debentures, in whole or in part, at a price of (i) 101% of the principal amount of such Senior Debentures plus (ii) all accrued interest to the date of repurchase.

**Defeasance**

The Senior Trust Indenture contains provisions requiring the Debenture Trustee to release the REIT from its obligations under the Senior Trust Indenture relating to a particular series of Senior Debentures provided that, among other things, the REIT satisfies the Debenture Trustee that it has deposited funds or made due provision for, among other things, the payment of (i) the expenses of the Debenture Trustee and (ii) all principal, premium (if any), interest and other amounts due or to become due in respect of the applicable series of Senior Debentures.

**Modification and Waiver**

Certain rights of the holders of Senior Debentures may be modified if authorized by Extraordinary Resolution. If the proposed modification affects the rights of the holders of a series of Senior Debentures rather than all of the Senior Debentures, the approval of a like proportion of the holders of such series of Senior Debentures will be required.

The approval threshold for an Extraordinary Resolution will generally be  $66\frac{2}{3}\%$  but will be 75% for the following: (a) to change the stated maturity of the principal or redemption price of or any premium or instalment of interest on, any Senior Debentures of such series, (b) to reduce the principal amount of, or interest or premium (if any) on, any Senior Debentures of such series, (c) to change the place or currency of payment of the principal of, premium (if any) on redemption price of or interest on, any Senior Debentures of such series, or (d) to amend the percentage of Senior Indenture Debentures of such series necessary to approve an Extraordinary Resolution.

Subject to certain rights of the Debenture Trustee as provided in the Senior Trust Indenture, the holders of a majority of the outstanding principal amount of a series of Senior Debentures, on behalf of all holders of such series of Senior Debentures, may waive certain events of default under the Senior Trust Indenture with respect to such series of Senior Debentures.

**Payment of Interest and Principal**

Except in the case of payment on maturity, in which case payment may be made on surrender of the applicable global certificate representing the Senior Debenture payments of interest and principal on each global certificate will be made to the depository, CDS Clearing and Depository Services Inc. as registered holder of that global certificate.

The REIT expects that the depository, upon receipt of any payment of principal or interest in respect of a global certificate, will credit participants' accounts, on the date principal or interest is payable, with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global certificate as shown on the records of the depository. The REIT also expects that payments of principal and interest by participants to the owners of beneficial interests in such global certificates will be governed by standing instructions and customary practices and will be the responsibility of such participants. The responsibility and liability of the REIT and the Debenture Trustee in respect of Senior Debentures represented by a global certificate is limited to making payment of any principal and interest due on such global certificate to the depository.

**Events of Default**

If an event of default has occurred and is continuing, the Debenture Trustee may, in its discretion, or will, upon the request of holders of at least 25% in aggregate principal amount of the outstanding Senior Debentures of such series, accelerate the maturity of all Senior Debentures of such series, provided

that after such acceleration, the holders of a majority in aggregate principal amount of outstanding Senior Debentures of such series may rescind and annul such acceleration in certain circumstances described in the Senior Trust Indenture. Notwithstanding the foregoing, if certain events of bankruptcy, insolvency, winding up or dissolution related to the REIT or a material subsidiary of the REIT, the outstanding Senior Debentures will become immediately due and payable without any declaration or other act on the part of the Debenture Trustee or any holders of Senior Debentures.

### **CREDIT RATING**

The Senior Debentures have received a rating of BBB (with a Stable trend) from DBRS. DBRS provides credit ratings of debt securities for commercial entities and the following description has been sourced from information made publicly available by DBRS.

The DBRS rating scale applicable to the Senior Debentures is meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both interest and principal commitments. DBRS ratings are opinions based on the quantitative and qualitative analysis of information sourced and received by DBRS, which information is not audited or verified by DBRS. As the goal of each DBRS rating is to provide a forward looking assessment, DBRS takes a longer-term “through the cycle” view of the issuer which emphasizes stability and as such, rating changes are not based solely on normal cycles in the economy. DBRS cautions that no two issuers possess exactly the same characteristics, nor are they likely to have the same future opportunities and, accordingly, two issuers with the same rating should not be considered to be of exactly the same credit quality.

The BBB (with a Stable trend) rating assigned to the Senior Debentures by DBRS is the fourth highest rating of DBRS’s ten rating categories, which range from AAA to D. With the exception of the AAA and D categories, DBRS uses high or low designations to indicate the relative standing of the securities being rated within a particular rating category, while the absence of either a high or low designation indicates the rating is in the middle of the category. Under the DBRS rating system, debt securities rated BBB are of adequate credit quality and protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its rated securities.

The credit rating assigned to the Senior Debentures by DBRS is not a recommendation to buy, sell or hold the Debentures inasmuch as such rating does not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time and ratings may be upgraded, downgraded, placed under review, confirmed and discontinued by DBRS in the future if in its judgment circumstances so warrant. The credit ratings on the Debentures may not reflect the potential impact of all risks related to structure and other factors affecting the value of the Debentures, including market risk, trading liquidity risk and covenant risk. In addition, real or anticipated changes in the credit ratings assigned to the Debentures may affect their market value. DBRS uses rating symbols as a simple and concise method of expressing its opinion to the market, although DBRS ratings usually consist of broader contextual information regarding the security provided by DBRS in rating reports, which generally set out the full rationale for the chosen rating symbol, and in other releases.

## DESCRIPTION OF THE BOW CONSTRUCTION FINANCING FACILITY

*The following is a summary of the material attributes and characteristics of the Bow Construction Financing Facility and does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of Bow Construction Financing Facility as filed on SEDAR.*

On April 22, 2009, the REIT entered into the Bow Construction Financing Facility with a syndicate of lenders co-led by Royal Bank of Canada and The Toronto-Dominion Bank and including, The Bank of Nova Scotia, Bank of Montreal, Alberta Treasury Branches and Canadian Western Bank.

The borrower under the facility is Centre Street Trust, acting by and through its sole trustee, Centre Street Trustee Inc. (collectively, the “**Borrower**”) under the credit agreement made as of April 22, 2009, as amended on January 22, May 13 and October 22, 2010 (the “**Bow Construction Financing Facility**”), and the REIT is an obligor under such facility. All of the equity interest of each of Centre Street Trust and Centre Street Trustee Inc. is owned by the REIT.

The Bow Construction Financing Facility consists of a non-revolving term construction credit facility in the amount of \$425 million available by way of prime loans and/or bankers’ acceptances, the proceeds of which shall be used to finance, in part, the hard costs and soft costs of the development construction of the Bow. The initial maturity date of the Bow Construction Financing Facility is October 22, 2012 but the Borrower may request an extension of such maturity date for an additional six month period, with such extension being subject to the discretion of the lenders and the satisfaction of certain conditions.

Borrowings under the Bow Construction Financing Facility are available by way of (i) prime loans bearing interest at a rate per annum equal to the prime rate from time to time plus an applicable margin, and (ii) bankers’ acceptances bearing interest at the applicable CDOR rate plus the Borrower shall pay a fee calculated on the face amount of the bankers’ acceptance at a rate per annum equal to the applicable margin. The Bow Construction Financing Facility is also subject to a standby fee. To mitigate the REIT’s risk for interest fluctuations on the Bow during the construction period, the REIT has entered into an interest rate swap which is intended to limit its interest rate exposure to an effective annual rate of 4.65%.

The Bow Construction Financing Facility is secured by, among other things, (i) a first ranking fixed charge debenture registered over the freehold lands and premises comprising the Bow, (ii) a first ranking general assignment of all present and future leases and rents relating to or arising from the Bow, (iii) a first ranking specific assignment of certain agreements with EnCana, (iv) a first ranking interest in respect of all personal property located in, on or at, acquired or used in connection with, arising from, or otherwise relating to, the Bow, (v) an unlimited guarantee by the REIT, (vi) the REIT’s undertaking and agreement to complete or cause the completion of the Bow and to fund any and all cost overruns, (vii) an assignment of insurance in respect of the Bow, and (viii) a pledge of all issued and outstanding shares of the nominee company that holds the legal title to the Bow.

The obligations of the lenders to make borrowings available under the Bow Construction Financing Facility are subject to the satisfaction of certain conditions including without limitation (i) labour and material bonding and performance bonding being in place covering all major construction contracts, (ii) not less than \$906 million of cash equity having been invested in the Borrower and the Bow by the REIT or any affiliate thereof, (iii) the REIT having in place a committed revolving credit facility of not less than \$300 million (subject to reduction to \$200 million in certain circumstances), and (iv) initial borrowings under the Bow Construction Financing Facility having occurred prior to either (a) December 31, 2010; (b) subject to certain conditions, March 31, 2011; or (c) or such later date after

December 31, 2010 as may be mutually agreed upon. As of December 31, 2010, all of the above conditions were satisfied and approximately \$26 million was drawn on the Bow Construction Financing Facility. The amount available and not drawn upon at December 31, 2010 is approximately \$399 million.

Pursuant to the Bow Construction Financing Facility, the REIT is subject to certain affirmative covenants, negative covenants, financial covenants, and reporting obligations. Affirmative covenants include without limitation, maintenance of corporate existence, maintenance of appropriate insurance, compliance with laws, receipt of government approvals, proper conduct of the Bow, payment of moneys and taxes due and payable, prompt notice of the occurrence of certain events, funding of costs overruns, and confirmation of fixed price contracts being in place for a minimum of 70% (or such lesser mutually-agreeable percentage) of hard construction costs of the Bow within 90 days of date of the Bow Construction Financing Facility. Negative covenants include without limitation, restrictions (subject in each case to exceptions) regarding: the disposition of the Bow, the lands related to the Bow; the creation of liens or granting of negative pledges; the entering into of any merger or similar transaction with any person; changes of a fundamental nature (including senior management, business objectives, purposes or operations, capital structure and constating documents; the cancellation or waiver of material contracts and changes to the Bow budget. Financial covenants include having a ratio of debt to gross asset value of not greater than 0.65:1.0 measured at the end of each fiscal quarter; debt service coverage of not less than 1.25:1.0 measured at the end of each fiscal quarter for such quarter and the prior three fiscal quarters; and unitholders' equity of not less than the sum \$1.35 billion plus 75% of net cash received from future equity offerings after April 24, 2009.

The Bow Construction Financing Facility is subject to certain events of default (including without limitation upon a change of control of the REIT). Upon the occurrence of any event of default, no cash distributions can be made by the REIT to Unitholders.

#### **FINANCE TRUST DECLARATION OF TRUST AND DESCRIPTION OF FINANCE TRUST UNITS**

*The following is a summary of certain provisions of the Finance Trust Declaration of Trust and does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the Finance Trust Declaration of Trust, as filed under Finance Trust's profile on SEDAR.*

The description of the Finance Trust Declaration of Trust and the Finance Trust Units is generally comparable to that described under "REIT Declaration of Trust and Description of REIT Units", provided that the word "REIT" is replaced with the words "Finance Trust" and the words "Finance Trust" are replaced with the word "REIT", with the following exceptions: (i) the section entitled "Redemption of REIT Units – REIT Trust Unit Redemption Price and Payment" should be disregarded in respect of the Finance Trust Units and instead reference should be made to the description below at "– Redemption of Finance Trust Units – Finance Trust Unit Redemption Price and Payment"; (ii) the Finance Trust Declaration of Trust does not provide for staggered terms of the Finance Trust Trustees or contain provisions directly related to such staggering of terms; (iii) the Finance Trust Declaration of Trust does not provide that a meeting of Unitholders must be called and held for, or that an affirmative vote of at least two-thirds of the votes cast at a meeting of Unitholders called and held is required for, the uncoupling of Stapled Units to provide for separate trading of the Finance Trust Units and the REIT Units; (iv) Finance Trust is not permitted to create or issue rights, warrants or options and is not permitted to incur indebtedness exchangeable at the option of the creditor for Stapled Units; and (v) the consideration for any Finance Trust Unit may only be paid in money or Series 1 U.S. Holdco Notes. For greater clarity, there are other differences between the REIT Declaration of Trust and the Finance Trust Declaration of Trust, and the REIT Units and the Finance Trust Units, that are not described herein and reference should

be made to the Finance Trust Declaration of Trust, as filed on SEDAR. See also “Investment Guidelines and Operating Policies of Finance Trust”.

### **Redemption of Finance Trust Units**

The “**Finance Trust Unit Redemption Price**” is the price per Finance Trust Unit equal to the Canadian dollar equivalent (determined using the exchange rate to convert U.S. currency to Canadian currency posted on the date on which the Finance Trust Unit is tendered to the Finance Trust for redemption (the “**Finance Trust Unit Redemption Date**”) by a bank as selected by Finance Trust) of the outstanding principal amount of Series 1 U.S. Holdco Notes as of the Finance Trust Unit Redemption Date, divided by the total number of Finance Trust Units issued and outstanding immediately prior to the Finance Trust Unit Redemption Date.

The aggregate redemption price payable by Finance Trust in respect of any Finance Trust Units surrendered for redemption during a particular calendar month will be satisfied by the mailing to the redeeming Unitholder of a payment by cheque no later than the last day of the month following the month during which the Finance Trust Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Finance Trust Units is subject to the limitation that the total amount payable by Finance Trust in respect of those Finance Trust Units and all other Finance Trust Units tendered for redemption in the same calendar month does not exceed \$50,000 (subject to certain adjustments and provided that the Finance Trust Trustees may, in their sole discretion, waive this limitation in respect of all Finance Units tendered for redemption in any calendar month).

If a Unitholder is not entitled to receive cash upon the redemption of Finance Trust Units as a result of the foregoing limitation, then the Finance Trust Unit Redemption Price for each Finance Trust Unit tendered for redemption will be the fair market value thereof as determined by the Finance Trust Trustees and, subject to any applicable regulatory approvals, shall be paid at and satisfied by way of a delivery of Series 1 U.S. Holdco Notes, the fair market value of which per Finance Trust Unit as expressed in lawful money of Canada shall equal the Finance Trust Unit Redemption Price. The Series 1 U.S. Holdco Notes will be issued pursuant to the U.S. Holdco Note Indenture and will be issuable in denominations of at least U.S.\$10 and in integral multiples of U.S.\$10. For a description of the Series 1 U.S. Holdco Notes see “Description of U.S. Holdco Notes”. No fractional Series 1 U.S. Holdco Notes in integral multiples of less than \$10 (or such other lower amount as the Finance Trust Trustees may establish from time to time) will be delivered and, where the amount of Series 1 U.S. Holdco Notes to be received by a redeeming Unitholder includes a fraction or a multiple less than \$10, that number shall be rounded to the next lowest whole number or integral multiple of U.S.\$10.

### **DESCRIPTION OF U.S. HOLDCO NOTES**

*The following is a summary of certain provisions of the U.S. Holdco Note Indenture and does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the U.S. Holdco Note Indenture, as filed on SEDAR.*

The U.S. Holdco Notes issued by U.S. Holdco to Finance Trust pursuant to the Plan of Arrangement are Series 1 U.S. Holdco Notes issued pursuant to the U.S. Holdco Note Indenture.

The Series 1 U.S. Holdco Notes will mature on October 1, 2018, being the tenth anniversary of the effective date of the Plan of Arrangement, subject to U.S. Holdco’s right to extend the maturity date one time for a further ten-year period. U.S. Holdco’s extension right is conditioned upon no event of default having occurred and still continuing when the right is exercised and U.S. Holdco’s achieving certain financial thresholds, including the consolidated interest coverage ratio test described below and a

loan-to-value test. The Series 1 U.S. Holdco Notes bear interest payable monthly from the date of issuance at a floating rate adjusted monthly equal to the annual interest rate for ten-year U.S. treasury notes, determined as at the immediately preceding interest payment date, plus a fixed 8% per annum spread.

The Series 1 U.S. Holdco Notes rank *pari passu* with each other note of the same series and are subordinated in right of payment to all present and future senior indebtedness of U.S. Holdco. The U.S. Holdco Note Indenture provides, however, that U.S. Holdco may only issue indebtedness thereunder that increases its aggregate indebtedness (including the U.S. Holdco Notes) to an amount in excess of U.S.\$150 million if the incremental indebtedness is funded by Finance Trust or if, after giving effect to such issuance, U.S. Holdco's consolidated interest coverage ratio would have been at least 1.3:1.0 for the immediately preceding calendar year.

The Series 1 U.S. Holdco Notes are not redeemable by U.S. Holdco prior to the third anniversary of the date of issuance except in limited circumstances. The redemption price for Series 1 U.S. Holdco Notes redeemed, if any, on or after the third anniversary of the date of issuance shall equal the sum of (i) the outstanding principal amount of the Series 1 U.S. Holdco Notes being redeemed, plus (ii) all accrued but unpaid interest on such principal amount through the redemption date, plus (iii) a *pro rata* share of the unamortized premium, if any, on any Series 1 U.S. Holdco Notes, plus (iv) subject to limited exceptions, a redemption premium calculated as the product of (A) the principal amount of the notes being redeemed and (B)(I) 4.0% during the year beginning on the third anniversary, (II) 2.5% during the year beginning on the fourth anniversary, (III) 1.0% during the year beginning on the fifth anniversary or (IV) 0% during the years beginning on and after the sixth anniversary.

Finance Trust has a limited right to put Series 1 U.S. Holdco Notes to U.S. Holdco for repayment in cash prior to the maturity date, which put right may only be exercised by Finance Trust where a holder of Finance Trust Units has surrendered Finance Trust Units for redemption in order to permit Finance Trust to satisfy the redemption price for such units (see "Finance Trust Declaration of Trust and Description of Finance Trust Units – Redemption of Finance Trust Units").

The terms of the U.S. Holdco Notes also provide that, subject to the approval of the holders of 66⅔% of the principal amount of U.S. Holdco Notes, U.S. Holdco will not (a) pay any amounts or transfer any other value to its stockholders if an event of default or pending event of default has occurred and is continuing or would occur as a result of such payment, and (b) enter into any material transaction with any "affiliate" (as defined in the U.S. Holdco Note Indenture) unless the transaction is entered into in the ordinary course of business and on arm's length terms, or the transaction is with a wholly-owned subsidiary or wholly-owned subsidiaries of U.S. Holdco or the transaction is an equity contribution by U.S. Holdco (other than certain equity contributions made on a non-*pro rata* basis).

Finance Trust's sole activity is to hold debt issued by U.S. Holdco, a wholly-owned subsidiary of the REIT through which the REIT holds its U.S. interests. Since any distributions to Unitholders from Finance Trust consist primarily of interest paid by U.S. Holdco, Finance Trust's ability to make distributions to Unitholders and pay its operating expenses depends upon receipt of sufficient funds from U.S. Holdco. The likelihood that Unitholders will receive distributions from Finance Trust will be dependent upon the financial position and creditworthiness of U.S. Holdco.

## DISTRIBUTION POLICY AND DISTRIBUTIONS

The following outlines the distribution policies of the REIT and Finance Trust as contained in the REIT Declaration of Trust and the Finance Trust Declaration of Trust, respectively. Each of these distribution policies may be amended only with the approval by a majority of the votes cast at a meeting of unitholders.

### The REIT

#### *General*

Pursuant to the REIT Declaration of Trust, the REIT may distribute to Unitholders on each Distribution Date such amounts as shall be determined by the REIT Trustees in their discretion for the calendar month ending on the Distribution Date (or, if the Distribution Date does not coincide with the last day of the calendar month, for the last calendar month ended immediately preceding the Distribution Date).

On each Distribution Date any Distribution by the REIT Trustees shall be payable proportionately to persons who are Unitholders on the record date for distribution in respect of each such Distribution.

Notwithstanding the foregoing, having regard to the present intention of the REIT Trustees to allocate, distribute and make payable to Unitholders all of the amount necessary to ensure that the REIT will not be liable to pay income tax under Part I of the Tax Act for any year, after taking into account any entitlement to a capital gains refund (such amount being known, in respect of any year, as the “**taxation distribution amount**”), unless the REIT Trustees, in their absolute discretion, have otherwise determined to not distribute such taxation distribution amount but, in lieu thereof, to distribute another specified amount, the amount which is sufficient to ensure that the taxation distribution amount is so distributed shall be deemed to be declared by the REIT Trustees as a Distribution, and shall be due and payable, on the earlier of the last Distribution Date in respect of the year or December 31 in the year, to persons who are Unitholders on the record date in respect of such Distribution. For greater certainty, if the REIT Trustees have exercised their absolute discretion to not distribute the taxation distribution amount in respect of any year, the difference between amounts actually declared as Distributions and the taxation distribution amount in respect of such year shall not be payable to Unitholders. Moreover, the REIT Trustees, in their absolute discretion, may at any time refute the intention referred to above to distribute taxation distribution amounts in respect of any year or future year.

At any time the REIT Trustees may declare an extraordinary distribution of cash, REIT Units or property of the REIT *in specie*. Distributions shall be made in cash or REIT Units pursuant to any distribution reinvestment plan or distribution reinvestment and unit purchase plan adopted by the REIT Trustees, or, in the case of an extraordinary distribution, in cash, REIT Units or property of the REIT *in specie*. Any distribution, including an extraordinary distribution, of REIT Units shall be subject to the restrictions noted at “REIT Declaration of Trust and Description of REIT Units – Transferability and Stapling of REIT Units” and “REIT Declaration of Trust and Description of REIT Units – Limitation on Non-Resident Ownership”.

Effective January 2009, the REIT’s and Finance Trust’s aggregate monthly cash distributions amounted to \$0.06 per Stapled Unit (or \$0.72 per Stapled Unit on an annualized basis). On May 14, 2010, the REIT Trustees announced their intention to increase distributions for July through September 2010 to \$0.07 per Stapled Unit (or \$0.84 per Stapled Unit on an annualized basis), and beginning October 2010 to the end of the second quarter of 2012, on a quarterly basis by 25 basis points. On the date hereof, the REIT Trustees revised the distribution schedule to further increase distributions effective the second

quarter of 2011 through to the end of the fourth quarter of 2012. The current monthly combined distribution schedule until the fourth quarter of 2012 is outlined in the following table.

<b>Distribution Period</b>	<b>Monthly Distribution Per Stapled Unit</b>	<b>Annualized Distribution Per Stapled Unit</b>
Q1 2011 (February, March)	\$0.0750	\$0.90
Q2 2011 (April, May and March)	\$0.0792	\$0.95
Q3 2011 (July, August and September)	\$0.0833	\$1.00
Q4 2011 (October, November and December)	\$0.0875	\$1.05
Q1 2012 (January, February and March)	\$0.0917	\$1.10
Q2 2012 (April, May and June)	\$0.0958	\$1.15
Q3 2012 (July, August and September)	\$0.1000	\$1.20
Q4 2012 (October, November and December)	\$0.1042	\$1.25

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

#### ***Allocation of Net Taxable Capital Gains and Net Recapture Income***

During each year, the REIT Trustees have allocated the income and net taxable capital gains of the REIT for the purposes of the Tax Act monthly on a *pro-rata* basis to Unitholders, based on the monthly distribution received by each Unitholder.

#### ***Tax Deferral on Distributions***

The adjusted cost base of REIT Units held by a Unitholder will generally be reduced by the non-taxable portion of distributions made to the Unitholder (other than the non-taxable portion of certain capital gains). A Unitholder will generally realize a capital gain to the extent that the adjusted cost base of the Unitholder's REIT Units would otherwise be a negative amount. Generally, a portion of the distributions made by the REIT to Unitholders in each year are tax deferred by reason of the REIT's ability to claim capital cost allowance and certain other deductions.

#### ***Withholding Taxes***

The REIT may deduct and withhold from each distribution payable to any Unitholder, all amounts which the REIT is required or permitted by law to deduct or withhold therefrom. In addition, in the case of non-cash distributions, the REIT shall (except as otherwise determined by the REIT Trustees) publicly announce the amount of tax required to be withheld from the portion of the distribution that is payable to Non-Residents, and allow for such Non-Residents to remit to the REIT an amount equal to the tax required to be withheld from the distribution. If a Non-Resident does not remit such amount for withholding tax purposes, the REIT shall have the right to recover the full amount of the withholding tax by selling all or a portion of the Non-Resident's Stapled Units (or if an Event of Uncoupling has occurred, REIT Units).

### **Finance Trust**

#### ***General***

Pursuant to the Finance Trust Declaration of Trust, Unitholders have a right to receive all of the Finance Trust Distributable Cash calculated annually and paid quarterly, or at the discretion of the Finance Trust Trustees, monthly. Unitholders are also entitled to receive a distribution on December 31 of

each year of any excess of the income of Finance Trust for the purposes of the Tax Act over distributions otherwise made for the year, in an amount at least sufficient to ensure that Finance Trust will not be taxable pursuant to Part I of the Tax Act. Distributions may be adjusted for amounts paid in prior periods if the actual Finance Trust Distributable Cash for the prior periods is greater than or less than the Finance Trust Trustees' estimates for the prior periods. At any time the Finance Trust Trustees may declare an extraordinary distribution of cash, Finance Trust Units or property of Finance Trust *in specie*. Distributions shall be made in cash or Finance Trust Units pursuant to any distribution reinvestment plan or distribution reinvestment and unit purchase plan adopted by the Finance Trust Trustees, or, in the case of an extraordinary distribution, in cash, Finance Trust Units or property of Finance Trust *in specie*. Any distribution, including an extraordinary distribution, of Finance Trust Units shall be subject to the restrictions noted at "REIT Declaration of Trust and Description of REIT Units – Transferability and Stapling of REIT Units" and "REIT Declaration of Trust and Description of REIT Units – Limitation on Non-Resident Ownership", each read as modified as described at "Finance Trust Declaration of Trust and Description of Finance Trust Units".

If the Finance Trust Trustees determine that Finance Trust does not have available cash in an amount sufficient to make payment of the full amount of any distribution on the due date for such payment, the payment may, at the option of the Finance Trust Trustees, include the issuance of additional Finance Trust Units, or fractions of Finance Trust Units, if necessary, having a fair market value as determined by the Finance Trust Trustees equal to the difference between the amount of such distribution and the amount of cash which has been determined by the Finance Trust Trustees to be available for the payment of such distribution; provided that any such issuance shall be subject to the restrictions noted at "REIT Declaration of Trust and Description of REIT Units – Transferability and Stapling of REIT Units" and "REIT Declaration of Trust and Description of REIT Units – Limitation on Non-Resident Ownership", each read as modified as described at "Finance Trust Declaration of Trust and Description of Finance Trust Units". See also "Risk Factors – Availability of Cash For Distributions".

#### ***Computation of Finance Trust Distributable Cash for Distribution Purposes***

"**Finance Trust Distributable Cash**" in respect of any period means the Cash Flow of Finance Trust (as computed below) for such period plus all amounts received by Finance Trust (other than proceeds of any issuance of Finance Trust Units or any other securities of Finance Trust) in any prior period to the extent not previously distributed or used to fund expenses, less any amount which, in the opinion of the Finance Trust Trustees, may reasonably be considered to be necessary to provide for the payment of any costs or expenditures which have been or will be incurred in the activities and operations of Finance Trust and to provide for the payment of any tax liability of Finance Trust (but excluding any such amounts previously deducted as described at (ii) in the computation of Cash Flow of Finance Trust). Finance Trust Distributable Cash may be estimated whenever the actual amount has not been finally determined, which estimate shall be adjusted as of the subsequent Distribution Date when the amount of Finance Trust Distributable Cash has been finally determined.

#### ***Computation of Cash Flow of Finance Trust***

"**Cash Flow of Finance Trust**", for any period, shall be determined as the aggregate of (i) all amounts which are received by Finance Trust during such period, other than the proceeds of any issuance of Finance Trust Units or any other securities of Finance Trust; less (ii) the following amounts, other than any expenses associated with the issuance of Finance Trust Units or any other securities of Finance Trust: (a) all costs and expenses of Finance Trust which, in the opinion of the Finance Trust Trustees, may reasonably be considered to have accrued and become owing in respect of, or which relate to, such period or a prior period if not accrued or deducted in determining the Cash Flow of Finance Trust in such prior period; (b) all amounts which relate to the redemption of Finance Trust Units and which have been paid

or become payable in cash by Finance Trust in such period; and (c) a reserve for any amounts which, in the opinion of the Finance Trust Trustees, may reasonably be considered to be necessary to provide for the payment of any costs or expenditures that are reasonably expected to be incurred by Finance Trust, including any tax liabilities of Finance Trust.

### ***Allocation of Income and Net Taxable Capital Gains***

During each year, the Finance Trust Trustees allocate the income and net taxable capital gains of the Finance Trust for the purposes of the Tax Act monthly on a *pro-rata* basis to Unitholders, based on the monthly distribution received by each Unitholder.

### ***Tax Deferral on Distributions***

The adjusted cost base of Finance Trust Units held by a Unitholder will generally be reduced by the non-taxable portion of distributions made to the Unitholder (other than the non-taxable portion of certain capital gains). A Unitholder will generally realize a capital gain to the extent that the adjusted cost base of the Unitholder's Finance Trust Units would otherwise be a negative amount. Generally, a portion of the distributions made by the Finance Trust to Unitholders in each year are tax deferred by reason of the amortization of Finance Trust Unit issue costs.

### ***Withholding Taxes***

Finance Trust may deduct and withhold from each distribution payable to any Unitholder, all amounts which Finance Trust is required or permitted by law to deduct or withhold therefrom. In addition, in the case of non-cash distributions, Finance Trust shall (except as otherwise determined by the Finance Trust Trustees) publicly announce the amount of tax required to be withheld from the portion of the distribution that is payable to Non-Residents, and allow for such Non-Residents to remit to Finance Trust an amount equal to the tax required to be withheld from the distribution. If a Non-Resident does not remit such amount for withholding tax purposes, Finance Trust shall have the right to recover the full amount of the withholding tax by selling all or a portion of the Non-Resident's Stapled Units (or if an Event of Uncoupling has occurred, Finance Trust Units). Upon any such sale, the affected Unitholder shall cease to be the holder of such Stapled Units.

If U.S. Holdco is required by U.S. federal income tax law to deduct and withhold and remit any amount to any governmental agency or body from any payment made by it to Finance Trust because of a particular Unitholder's status or for any other reason which is specifically attributable to a particular Unitholder (the particular Unitholder is referred to herein as the "**relevant Unitholder**"), and under applicable U.S. federal income tax law, such amount is required to be deducted and withheld and remitted on account of a U.S. federal income tax liability of the relevant Unitholder relating to the payment, then the relevant Unitholder shall forthwith upon demand reimburse Finance Trust for the full amount so deducted and withheld in respect of the Unitholder's liability for such U.S. tax and Finance Trust shall have the right to recover the full amount of such U.S. tax in such manner as it deems appropriate from each relevant Unitholder who does not comply, including without limitation setting off same against the relevant Unitholder's right to receive any subsequent distribution from Finance Trust.

Any Unitholder that is not a U.S. Unitholder and that is or becomes a "10 percent shareholder" of U.S. Holdco within the meaning of Section 871(h)(3)(B) or Section 881(c)(3)(B) of the Code, and any Unitholder that is a bank or a controlled foreign corporation within the meaning of Section 881(c)(3) of the Code, shall forthwith give notice thereof to Finance Trust. Each holder of a Finance Trust Unit, by its acceptance of Finance Trust Units, agrees that it shall indemnify and hold harmless Finance Trust and U.S. Holdco for any amount of U.S. federal tax required to be withheld as noted above. If any such Unitholder

is liable to make a payment to Finance Trust in respect of such indemnity, Finance Trust shall have the right to recover from such Unitholder the full amount for which such Unitholder is so liable in such manner as it deems appropriate, including without limitation setting off same against such Unitholder's right to receive any subsequent distribution from Finance Trust.

### Distributions

For each of the months ended January 31, 2008 through and including September 30, 2008, the REIT distributed \$0.12 per REIT Unit. On October 1, 2008, the REIT completed the 2008 Reorganization and each issued and outstanding REIT Unit began trading together with a Finance Trust Unit as a Stapled Unit. Commencing with the January 2009 distribution, the REIT's monthly cash distribution was reduced such that the REIT and Finance Trust aggregated monthly cash distributions were reduced by half to \$0.06 per Stapled Unit (or \$0.72 per Stapled Unit on an annualized basis). On May 14, 2010, the REIT Trustees announced their intention to increase distributions for July through September 2010 to \$0.07 per Stapled Unit (or \$0.84 per Stapled Unit on an annualized basis) and beginning October 2010 to the end of the second quarter of 2012 on a quarterly basis by 25 basis points. On the date hereof, the REIT Trustees revised the distribution schedule to further increase distributions effective the second quarter of 2011 through to the end of the fourth quarter of 2012. See "Distribution Policy and Distributions – The REIT". The following table sets forth, for the periods indicated, the REIT's and Finance Trust's cash distributions per Stapled Unit on a monthly basis for the periods indicated:

Month	REIT	Finance Trust	Total
<b>2008</b>			
October	\$0.10943	\$0.01057	\$0.1200
November	\$0.11018	\$0.00982	\$0.1200
December	\$0.10300	\$0.01700	\$0.1200
<b>2009</b>			
January	\$0.05078	\$0.00922	\$0.0600
February	\$0.05133	\$0.00867	\$0.0600
March	\$0.05060	\$0.00940	\$0.0600
April	\$0.05078	\$0.00922	\$0.0600
May	\$0.05113	\$0.00887	\$0.0600
June	\$0.05115	\$0.00885	\$0.0600
July	\$0.05151	\$0.00849	\$0.0600
August	\$0.05088	\$0.00912	\$0.0600
September	\$0.05212	\$0.00788	\$0.0600
October	\$0.05142	\$0.00858	\$0.0600
November	\$0.05118	\$0.00882	\$0.0600
December	\$0.05145	\$0.00855	\$0.0600
<b>2010</b>			
January	\$0.05108	\$0.00892	\$0.0600
February	\$0.05210	\$0.00790	\$0.0600
March	\$0.05157	\$0.00843	\$0.0600
April	\$0.05205	\$0.00795	\$0.0600
May	\$0.05152	\$0.00848	\$0.0600
June	\$0.05300	\$0.00700	\$0.0600
July	\$0.06168	\$0.00832	\$0.0700
August	\$0.06183	\$0.00817	\$0.0700
September	\$0.06239	\$0.00761	\$0.0700
October	\$0.06471	\$0.00779	\$0.0725
November	\$0.06427	\$0.00823	\$0.0725
December	\$0.05645	\$0.01605	\$0.0725

<b>2011</b>			
January	\$0.06700	\$0.00800	\$0.0750

### MARKET FOR SECURITIES

#### Stapled Units

The Stapled Units are listed on the TSX under the trading symbol “HR.UN”. The following table sets forth, for the periods indicated, the reported high and low prices and the aggregate volume of trading of the Stapled Units on the TSX.

Month	Price (\$)		Trading Volume
	High	Low	
<b>2010</b>			
January	16.82	15.05	7,038,106
February	17.40	15.71	5,283,582
March	17.19	16.00	10,852,209
April	17.65	16.58	6,510,518
May	17.55	15.50	7,144,027
June	17.16	15.88	6,020,142
July	18.40	16.78	5,297,294
August	19.19	17.80	5,691,830
September	19.88	18.75	9,752,146
October	20.90	19.40	5,270,734
November	20.80	18.76	6,780,301
December	20.00	19.10	6,493,527
<b>2011</b>			
January	20.85	19.37	7,466,423
February (1 - 23)	21.83	20.37	5,239,674

Source: TSX Market Data

#### 2013 Convertible Debentures

The outstanding 2013 Convertible Debentures are listed on the TSX under the trading symbol “HR.DB”. The following table sets forth, for the periods indicated, the reported high and low prices and the aggregate volume of trading of the 2013 Convertible Debentures on the TSX.

Month	Price (\$)		Trading Volume
	High	Low	
<b>2010</b>			
January	105.00	103.00	9,210
February	107.00	104.50	7,110
March	107.00	105.00	6,900
April	107.00	104.50	7,680
May	106.00	101.90	13,210
June	105.00	103.00	10,030
July	108.99	103.70	10,985
August	107.00	104.00	5,660
September	107.00	105.00	8,450
October	107.50	105.75	4,720
November	107.00	104.00	10,050
December	106.60	102.75	6,300
<b>2011</b>			
January	106.00	105.00	5,572
February (1 - 23)	106.00	104.50	6,680

Source: TSX Market Data

## 2014 Convertible Debentures

The outstanding 2014 Convertible Debentures are listed on the TSX and commenced trading under the trading symbol “HR.DB.B” on July 30, 2009. The following table sets forth, for the periods indicated, the reported high and low prices and the aggregate volume of trading of the 2014 Convertible Debentures on the TSX.

Month	Price (\$)		Trading Volume
	High	Low	
<b>2010</b>			
January	123.50	114.81	245,100
February	126.10	115.31	43,410
March	124.99	119.56	274,220
April	127.00	120.26	65,610
May	127.00	114.90	106,740
June	125.00	118.00	74,400
July	132.00	123.00	345,941
August	138.00	125.00	82,520
September	141.75	136.27	61,600
October	148.80	138.90	39,080
November	148.71	135.00	69,600
December	141.75	137.10	25,580
<b>2011</b>			
January	147.80	138.45	170,470
February (1 - 23)	155.03	145.08	169,930

Source: **TSX Market Data**

## 2017 Convertible Debentures

The outstanding 2017 Convertible Debentures are listed on the TSX and commenced trading under the trading symbol “HR.DB.C” on December 30, 2009. The following table sets forth, for the periods indicated, the reported high and low prices and the aggregate volume of trading of the 2017 Convertible Debentures on the TSX.

Month	Price (\$)		Trading Volume
	High	Low	
<b>2010</b>			
January	103.75	99.70	326,530
February	105.00	102.00	80,080
March	106.00	103.75	109,810
April	105.00	102.50	37,820
May	105.00	101.00	36,950
June	104.00	101.00	45,040
July	108.50	103.00	87,000
August	109.99	105.60	22,824
September	110.50	107.50	65,580
October	113.50	109.00	61,790
November	112.00	107.00	24,138
December	109.50	106.02	39,510
<b>2011</b>			
January	111.00	107.50	58,100
February (1 - 23)	116.00	110.75	57,740

Source: **TSX Market Data**

## 2020 Convertible Debentures

The outstanding 2020 Convertible Debentures are listed on the TSX and commenced trading under the trading symbol “HR.DB.D” on July 27, 2010. The following table sets forth, for the periods indicated, the reported high and low prices and the aggregate volume of trading of the 2020 Convertible Debentures on the TSX.

Month	Price (\$)		Trading Volume
	High	Low	
<b>2010</b>			
July (27-31)	100.25	99.75	47,810
August	102.99	100.00	64,410
September	103.50	101.37	31,880
October	106.00	101.61	19,900
November	109.00	102.50	19,790
December	104.96	100.30	17,900
<b>2011</b>			
January	104.00	101.50	6,110
February (1 - 23)	105.75	103.00	5,970

Source: TSX Market Data

## PRIOR SALES OF UNLISTED SECURITIES

The following securities of the REIT were issued in 2010 and are not listed or quoted on a marketplace.

On February 3, 2010, the REIT completed a public offering of \$115 million principal amount of the Series A Senior Debentures, bearing interest at the annual rate of 5.20% per annum, and \$115 million principal amount of the Series B Senior Debentures, bearing interest at an annual rate of 5.90% per annum.

On September 14, 2010, the REIT completed a public offering of \$125 million principal amount of the Series C Senior Debentures, bearing interest at an annual rate of 5.00% per annum.

## MANAGEMENT OF THE REIT

The day-to-day operations of the REIT are under the direction of internal management. The operations of the REIT are subject to the control of the REIT Trustees. Among other duties, management is responsible for providing the REIT Trustees and the Investment Committee with information and advice relating to acquisitions, dispositions and financing, maintaining the books and financial records of the REIT, preparing reports and other information required to be sent to Unitholders and other disclosure documents, calculating and determining all allocations, designations, elections and determinations to be made in connection with the income and capital gains of the REIT for tax and accounting purposes, preparing all documentation relating to meetings of Unitholders, completing or supervising completion of transactions and assisting in the recruitment of suitable individuals for nomination as REIT Trustees.

### General

The REIT Declaration of Trust provides that the REIT must have a minimum of five and a maximum of eleven REIT Trustees. Presently, the REIT has six REIT Trustees. The number of REIT Trustees within such minimum and maximum numbers may be changed by the Unitholders or, if authorized by the Unitholders, by the REIT Trustees, provided that the REIT Trustees may not, between meetings of Unitholders, appoint an additional REIT Trustee if, after such appointment, the total number

of REIT Trustees would be greater than one and one-third times the number of REIT Trustees in office immediately following the last annual meeting of Unitholders. The REIT Trustees have been authorized to change the number of REIT Trustees as aforesaid.

The REIT Trustees are elected by resolution passed by a majority of the votes cast at a meeting of the Unitholders. Such REIT Trustees will serve two year staggered terms and the REIT Trustees have adopted a policy that entitles each Unitholder to vote for each nominee on an individual basis rather than for a fixed slate of nominees. REIT Trustees elected at an annual meeting will be elected for terms expiring at the second subsequent annual meeting and will be eligible for re-election; provided, however, that any REIT Trustee who reaches the age of 65 shall subject himself or herself for reconfirmation as a trustee on an annual basis notwithstanding the two-year term of office as trustee provided for in the REIT's Declaration of Trust and that any REIT Trustee who reaches the age of 75 is expected to retire from office as a trustee by submitting his or her resignation effective as at the close of the next annual meeting of Unitholders upon reaching such age. A vacancy occurring among the REIT Trustees may be filled by the Unitholders or by resolution of a majority of the remaining REIT Trustees. A REIT Trustee elected to fill a vacancy will be elected for the remaining term of the REIT Trustee being succeeded.

The approval of either the Investment Committee, if an Investment Committee has been appointed, or the REIT Trustees is required prior to the REIT making any acquisition or disposition and for the assumption or granting of any mortgage or other security interest, but not for the renewal of any existing mortgage or other security interest.

The REIT Declaration of Trust contains additional provisions to the following effect with respect to REIT Trustees:

- a majority of the REIT Trustees must be resident Canadians;
- a majority of the REIT Trustees, and of committee members, must be Independent REIT Trustees;
- a majority of the REIT Trustees, at least two-thirds of members of the Investment Committee, and at least two-thirds of the REIT Trustees voting on an acquisition or disposition of real property, shall have had at least five years substantial experience in the real estate industry; and
- a REIT Trustee may be removed with or without cause by two-thirds of the votes cast at a meeting of Unitholders (or by written consent of Unitholders holding in aggregate not less than two-thirds of the outstanding REIT Units entitled to vote thereon) or with cause by two-thirds of the remaining REIT Trustees.

Subject to the terms and conditions of the REIT Declaration of Trust, the REIT Trustees have full, absolute, and exclusive power, control and authority over the assets and affairs of the REIT to the same extent as if the REIT Trustees were the sole owners of the assets of the REIT in their own right, to do all such acts and things as in their sole judgment and discretion are necessary or incidental to, or desirable for, the carrying out of any of the purposes of the REIT or the conducting of the affairs of the REIT.

The standard of care and duties of the REIT Trustees provided in the REIT Declaration of Trust are similar to those imposed on a director of a corporation governed by the CBCA. Accordingly, each REIT Trustee is required to exercise the powers and carry out their functions as REIT Trustees honestly, in good faith and in the best interests of the REIT and the Unitholders and, in connection therewith, to exercise that degree of care, diligence and skill that a reasonably prudent person would exercise in

comparable circumstances. To the extent that the REIT Trustees have contracted or delegated the performance of all or a portion of their activities to a property manager, they shall be deemed to have satisfied this standard of care.

### **Conflict of Interest Restrictions and Provisions**

The REIT Declaration of Trust contains “conflict of interest” provisions that serve to protect Unitholders without creating undue limitations on the REIT. Given that the REIT Trustees are engaged in a wide range of real estate and other activities, the REIT Declaration of Trust contains provisions, similar to those contained in the CBCA, that require each REIT Trustee or officer of the REIT to disclose to the REIT any interest in a material contract or transaction or proposed material contract or transaction with the REIT or the fact that such person is a director or officer of or has a material interest in any person who is a party to a material contract or transaction or proposed material contract or transaction with the REIT. Such disclosure is required to be made by a REIT Trustee (i) at the first meeting of the REIT Trustees or the Investment Committee at which a proposed contract or transaction is considered, (ii) if the REIT Trustee was not then interested in a proposed contract or transaction or becomes interested after a contract is made or a transaction is entered into, at the first such meeting after the REIT Trustee becomes so interested, or (iii) if a person who is interested in a contract or transaction later becomes a REIT Trustee, at the first such meeting after such person becomes a REIT Trustee. In the case of an officer of the REIT who is not a REIT Trustee, such disclosure is required to be made (i) immediately after such person becomes aware that the contract or transaction or proposed contract or transaction is to be considered or has been considered at a meeting of the REIT Trustees or the Investment Committee, (ii) if such person becomes interested after a contract is made or a transaction is entered to, immediately after such person becomes so interested, or (iii) if a person who is interested in a contract or transaction later becomes an officer of the REIT who is not a REIT Trustee, immediately after such person becomes an officer of the REIT. In the event that a material contract or transaction or proposed material contract or transaction is one that in the ordinary course would not require approval by the REIT Trustees or unitholders, a REIT Trustee or officer of the REIT is required to disclose in writing to the REIT Trustees or request to have entered into the minutes of meetings of the REIT Trustees the nature and extent of such person’s interest immediately after such person becomes aware of the contract or transaction or proposed contract or transaction. In any case, a REIT Trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to his remuneration as a REIT Trustee, officer, employee or agent of the REIT or one for indemnity under the provisions of the REIT Declaration of Trust or the purchase of liability insurance.

### **Independent REIT Trustee Matters**

The following matters, among others, require the approval of a majority of the Independent REIT Trustees to become effective:

- a material change to any property management agreement with the Property Manager or any extension thereof or an increase in the fees payable to the Property Manager;
- any changes in compensation of the Chief Executive Officer or the Chief Financial Officer; and
- the enforcement of any agreement entered into by the REIT with a non-Independent REIT Trustee, with the Property Manager or an affiliate thereof, or with an associate of a non-Independent REIT Trustee or the Property Manager.

## REIT Trustees

The name, province and country of residence, principal occupation of each REIT Trustee and their years of service as REIT Trustees are as follows:

<u>Name, Province and Country of Residence</u>	<u>Principal Occupation</u>	<u>Year first became a REIT Trustee</u>
Thomas J. Hofstedter <sup>(1)</sup> ..... Ontario, Canada	President and Chief Executive Officer of the REIT	1996
Robert E. Dickson <sup>(2)(4)(5)</sup> ..... Ontario, Canada	Managing Director, MDC Partners Inc. (a marketing communications company)	2000
Edward Gilbert <sup>(1)(2)(3)(4)(5)</sup> ..... Ontario, Canada	Chief Operating Officer, Firm Capital Mortgage Investment Corporation	1996
Robert Kaplan <sup>(4)(5)</sup> ..... Ontario, Canada	Business Consultant	1996
Laurence A. Lebovic <sup>(1)(3)(4)(5)</sup> ..... Ontario, Canada	Chief Executive Officer of Runnymede Development Corporation Ltd. (a real estate developer)	1996
Ronald C. Rutman <sup>(2)(3)(4)(5)</sup> ..... Ontario, Canada	Partner, Zeifmans LLP, Chartered Accountants	1996

Notes:

- (1) Member of the Investment Committee.
- (2) Member of the Audit Committee.
- (3) Member of the Compensation and Governance Committee.
- (4) Independent REIT Trustee.
- (5) Member of the Nominating Committee

Each of the REIT Trustees has been engaged in the principal occupation described in the table above during the last five years.

The term of office of two REIT Trustees, namely Edward Gilbert and Robert Kaplan, will expire at the close of the 2011 annual meeting of holders of the REIT Units. The term of office of the remaining four REIT Trustees, namely Thomas J. Hofstedter, Robert E. Dickson, Laurence A. Lebovic and Ronald C. Rutman, will expire at the close of the 2012 annual meeting of holders of the REIT Units.

## Executive Officers

The name, province and country of residence, office of each executive officer of the REIT are as follows:

<u>Name, Province and Country of Residence</u>	<u>Office</u>
Thomas J. Hofstedter ..... Ontario, Canada	President and Chief Executive Officer
Larry Froom ..... Ontario, Canada	Chief Financial Officer
Nathan Uhr ..... Ontario, Canada	Chief Operating Officer <sup>(1)</sup>

## Notes:

(1) Effective January 1, 2011, Nathan Uhr was appointed to the office of Chief Operating Officer, prior this appointment, he was Vice President, Acquisitions.

Each of the executive officers of the REIT has held the office described in the table above as his principal occupation during the last five years except that Larry Froom was the Vice-President, Finance of H&R Developments from 2004 to October 2006 and also acted as Vice-President Finance of the REIT from January 1, 2006 to September 20, 2006.

As at the date hereof, the REIT Trustees and executive officers of the REIT, as a group, own of record or beneficially, directly or indirectly, or exercise control or direction over, an aggregate of approximately 4.4 million Stapled Units, representing approximately 3% of the outstanding Stapled Units as of February 23, 2011. In addition, Thomas J. Hofstedter is an indirect 25% shareholder of one of the corporations that comprise H&R Developments, which currently holds an aggregate of 2,957,209 HRLP Exchangeable Units that are exchangeable on a one-for-one basis at any time for Stapled Units (such Stapled Units will be issued from treasury at the time of the exchange).

### **Corporate Cease Trade Orders or Bankruptcies**

No REIT Trustee or executive officer of the REIT is or has been, within the preceding ten years, a director, trustee, chief executive officer or chief financial officer of any company or trust (including a personal holding company of any such persons) that:

- (a) was subject to a cease trade order (or similar order that denied the company access to any exemption under securities legislation) that was issued while the REIT Trustee or executive officer was acting in the capacity as director, trustee, chief executive officer or chief financial officer, or
- (b) was subject to a cease trade order (or similar order that denied the company access to any exemption under securities legislation) that was issued after the REIT Trustee or executive officer ceased to be a director, trustee, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, trustee, chief executive officer or chief financial officer,

with the exception of Robert E. Dickson, Managing Director of MDC Partners Inc., which was subject to a temporary cease trade order against management and insiders of that corporation issued in November 2004 by the Ontario Securities Commission for a delay in filing interim financial statements, which order expired in December 2004 after such financial statements were filed.

No REIT Trustee or executive officer of the REIT is or has been, within the preceding ten years, a director, trustee or executive officer of any company or trust that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, with the exception of Robert Kaplan who ceased to be a director of Mooney Aerospace Group, Ltd. approximately ten months prior to June 2004 when that corporation filed voluntary petitions for reorganization under Chapter 11 of the federal bankruptcy laws in the United States.

### **Penalties or Sanctions**

No REIT Trustee or executive officer of the REIT, or a personal holding company of any such persons, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making any investment decision concerning the securities of the REIT.

### **Individual Bankruptcies**

No REIT Trustee or executive officer of the REIT, or a personal holding company of any such persons, has, within the preceding ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that such person.

### **Conflicts of Interest**

Certain of the REIT Trustees or officers of the REIT are also directors, officers and shareholders of other companies and conflicts of interest may arise between their duties as REIT Trustees or officers of the REIT and as directors, officers or shareholders of other companies. In particular, Thomas J. Hofstedter, the President, Chief Executive Officer and a REIT Trustee of the REIT, is also a director of, and his children own a 12.5% shareholding interest in, the Property Manager. The Property Manager currently provides property management and support services to the REIT pursuant to the Omnibus Management Agreement. See “Management of the Properties”. In addition, the Property Manager is entitled to participate in the REIT’s bonus pool as the class of eligible participants in the bonus pool includes service providers to the REIT. The total annual fees paid to the Property Manager by the REIT is customarily disclosed annually in the REIT’s Management Information Circular. For the years 2010, 2009 and 2008, such fees consisted of \$14.7 million, \$13.8 million and \$14.5 million, respectively, for Management Services and Support Services provided under the Omnibus Management Agreement. For the years 2010, 2009 and 2008, a further amount of \$2.5 million, \$3.6 million and \$3.5 million, respectively was earned by the Property Manager under the REIT’s bonus pool. Of this amount \$nil, \$3.6 million and \$1.5 million, respectively, was waived by the Property Manager.

In the event of all such conflicts, the REIT Trustees and officers of the REIT are required to conduct themselves in accordance with the obligations imposed on them by law or pursuant to any contractual arrangements that are binding upon them, including the REIT Declaration of Trust.

## **AUDIT COMMITTEE INFORMATION**

### **Audit Committee Charter**

The responsibilities and duties of the REIT’s Audit Committee (the “**Audit Committee**”) are set out in the Audit Committee’s charter, the text of which is set forth in Schedule A to this annual information form.

### **Composition of the Audit Committee**

Currently, there are three members of the Audit Committee, each of whom has been determined by the REIT Trustees to be “independent” and “financially literate” as such terms are defined under

Canadian securities laws. Each member of the Audit Committee has the ability to perform his responsibilities as an Audit Committee member based on his education and/or experience as summarized below.

Robert E. Dickson graduated from University College, Oxford in 1980 with a B.A. (Jurisprudence) and graduated from the University of Toronto Law School in 1982 with an LL.B. Since 2000, Mr. Dickson has been Executive Vice-President, Corporate Development, Maxxcom Inc. (“**Maxxcom**”) and Managing Director, MDC Partners Inc. (“**MDC**”), both public companies. Prior to that time, he practiced corporate law at Fraser Milner Casgrain LLP where Mr. Dickson specialized in mergers and acquisitions and financing transactions. Mr. Dickson’s academic and professional experience indicates expertise in the areas of executive management, law and finance.

Edward Gilbert became a member of The Institute of Chartered Accountants in December 1969. Mr. Gilbert had over 20 years experience in public accounting until his retirement in 1989. During his career in accountancy he was involved with the accounting and audit of many real estate companies and was also involved in financing of real estate projects. Mr. Gilbert has over 30 years experience in owning, operating and managing real estate properties and ventures. In 1995 Mr. Gilbert joined Firm Capital Mortgage Investment Corporation, where he is currently the Chief Operating Officer and a director. Mr. Gilbert’s academic and professional experience indicates expertise in the areas of executive management, real estate and finance.

Ronald C. Rutman graduated from the Commerce and Finance Program of the University of Toronto in 1975 and received his designation as a Chartered Accountant in 1976. Mr. Rutman has been a partner for over 30 years at Zeifmans LLP, Chartered Accountants (formerly Zeifman & Company, Chartered Accountants) and has substantial real estate experience. Mr. Rutman’s academic and professional experience indicates expertise in the areas of real estate and finance.

### **Pre-Approval of Non-Audit Services**

In accordance with the independence standards for auditors, the REIT is restricted from engaging its external auditors to provide certain non-audit services to the REIT, including bookkeeping or other services related to the accounting records or financial statements, financial information systems design and implementation, valuation services, actuarial services, internal audit services, corporate finance services, management functions, human resources functions, legal services and expert services unrelated to the audit. The REIT does engage its external auditors from time to time, to provide certain non-audit services other than the restricted services. All non-audit services must be specifically pre-approved by the Audit Committee.

### **External Auditor Service Fees**

The following table sets forth the approximate amounts of fees paid and accrued to KPMG LLP, the REIT’s external auditors, for services rendered for the fiscal years 2010 and 2009:

<b>Fee Category</b>	<b>2010</b>	<b>2009</b>
Audit fees <sup>(1)</sup>	\$1,291,500	\$1,370,000
Audit-related fees <sup>(2)</sup>	nil	120,000
Tax fees <sup>(3)</sup>	661,600	1,158,960
All other fees	nil	nil
<b>Total</b>	<b>\$1,903,100</b>	<b>\$2,648,960</b>

## Notes:

- (1) "Audit fees" include the aggregate professional fees paid to KPMG LLP for the audit of the annual consolidated financial statements and other regulatory audits and filings, audits of properties and operating costs, review of quarterly financial statements and aggregate fees paid for the provision of assistance with regulatory filings and public offerings of REIT Units and debentures including compliance with legislative and regulatory initiatives and other services.
- (2) "Audit-related fees" include the aggregate fees paid to KPMG LLP, for assurance and related services including technical, accounting and financial reporting advice services.
- (3) "Tax fees" include the aggregate fees paid and accrued to KPMG LLP for the provision of tax compliance for the 2009-2010 fiscal years, tax advice, tax planning and other tax-related services relating to acquisitions of Properties or otherwise and for certain services relating to the 2009 Reorganization.

### INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The REIT and the Property Manager are parties to the Omnibus Management Agreement as more fully described above under "Management of the Properties" and "Management of the REIT – Conflicts of Interest".

### LEGAL PROCEEDINGS

The REIT is involved in various non-material ordinary course legal proceedings. Although such proceedings cannot be predicted with certainty, management of the REIT does not expect that the outcome of these matters will have a material adverse effect on the REIT.

### REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent for each of the Stapled Units, the Fairfax Debentures and the Convertible Debentures is CIBC Mellon Trust Company at its principal office in Toronto, Ontario and the register of transfers of the Stapled Units is located in Toronto.

### MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into in the ordinary course of business, which have been entered into by the REIT or any of the REIT's subsidiaries during 2010, or before 2010 but subsequent to December 31, 2001 and which are still in effect:

- (a) the Omnibus Management Agreement (as more fully described under "Management of the Properties");
- (b) the Convertible Trust Indenture (as more fully described under "Description of Convertible Debentures");
- (c) the Support Agreement (as more fully described under "Description of Stapled Units – Support Agreement");
- (d) the U.S. Holdco Note Indenture (as more fully described under "Description of U.S. Holdco Notes");

- (e) the Senior Trust Indenture (as more fully described under “Description of Senior Debentures”);
- (f) the Bow Construction Financing Facility (as more fully described under “Description of the Bow Construction Financing Facility”);
- (g) the exchange and support agreement among HRLP, the REIT, Finance Trust and HRP Trust (as more fully described under “The REIT – 2009 Reorganization”); and
- (h) Debenture Purchase Agreement among Fairfax and the REIT dated January 27, 2010.

Copies of all material contracts listed above may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **INTERESTS OF EXPERTS**

KPMG LLP are the external auditors of the REIT who prepared (i) the Auditors’ Report to the holders of REIT Units dated February 24, 2011, with respect to the consolidated annual financial statements of the REIT for the years ended December 31, 2010 and 2009 consisting of consolidated balance sheets and consolidated statements of earnings, unitholders’ equity and comprehensive income and cash flows and (ii) the Auditors’ Report to the Unitholders dated February 24, 2011, with respect to the combined annual financial statements of the REIT and Finance Trust for the years ended December 31, 2010 and 2009 consisting of combined balance sheets and combined statements of earnings, unitholders’ equity and comprehensive income and cash flows. KPMG LLP has confirmed that they are independent with respect to the REIT (and its related entities) and Finance Trust within the meaning of the Rules of Professional Conduct/Code of Ethics of the Institute of Chartered Accountants of Ontario as of February 24, 2011.

Blake, Cassels & Graydon LLP is named as having prepared an opinion described or included in continuous disclosure filings made by the REIT during, or relating to, the REIT’s most recently completed financial year. As at the date of such opinion, and as at the date hereof, partners and associates of Blake, Cassels & Graydon LLP, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding REIT Units. Will Fung, a partner of Blake, Cassels & Graydon LLP, is the Secretary of the REIT.

Davies Ward Phillips & Vineberg LLP is named as having prepared an opinion described or included in continuous disclosure filings made by the REIT during, or relating to, the REIT’s most recently completed financial year. As at the date of such opinion, and as at the date hereof, partners and associates of Davies Ward Phillips & Vineberg LLP, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding REIT Units.

### **RISK FACTORS**

There are certain risks inherent in an investment in the Stapled Units and the debentures of the REIT and in the activities of the REIT, including the following and those set out in the REIT’s management discussion and analysis for the year ended December 31, 2010 and the combined management discussion and analysis of the REIT and Finance Trust for the year ended December 31, 2010, which investors should carefully consider before investing in Stapled Units and the debentures of the REIT.

## **Prices of REIT Securities**

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.

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

Trading prices for publicly traded debt, such as the Convertible Debentures, depend on many factors, including liquidity of such debentures, prevailing interest rates and the markets for similar securities, the market price of the Stapled Units, general economic conditions and the REIT's and Finance Trust's financial condition, historic financial performance and future prospects.

Prevailing interest rates will affect the market price or value of the Convertible Debentures. Assuming all other factors remain unchanged, the market price or value of the Convertible Debentures, which carry a fixed interest rate, will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline.

Challenging market conditions, the health of the economy as a whole and numerous other factors beyond the control of the REIT may have a material effect on the business, financial condition, liquidity and results of operations of the REIT and/or Finance Trust. Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of securities of issuers and that have often been unrelated to the operating performance, underlying asset values or prospects of such issuers. There can be no assurance that continuing fluctuations in price and volume will not occur. Accordingly, the market price of the Stapled Units and/or the Convertible Debentures may decline even if the REIT's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, the REIT's operations could be adversely impacted and the trading price of the Stapled Units and/or the Convertible Debentures may be adversely affected.

Since REIT Units and Finance Trust Units do not trade independently, but rather are stapled together as Stapled Units, investors in Stapled Units will be subject to all of the risks of an investment in both REIT Units and Finance Trust Units. Holders of Stapled Units should consult Finance Trust's management discussion and analysis for the year ended December 31, 2010 and specifically the "Risk and Uncertainties" and "Forward-Looking Disclaimer" sections therein.

## **Availability of Cash for Distributions**

The REIT paid a monthly distribution of \$0.0750 per Stapled Unit for the month of January and the REIT's current distribution policy is set forth under "Distribution Policy and Distributions – The REIT". As the monthly cash distribution paid by Finance Trust fluctuates monthly, the monthly cash distribution paid by the REIT will also fluctuate in order to result in an aggregate monthly cash distribution as previously outlined. Although the REIT intends to make distributions of its available cash

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

### **Development and Financing Risk Relating to the Bow**

The REIT was able to secure the Bow Construction Financing Facility during April 2009. The agreements and indentures governing indebtedness of this facility contain certain covenants and conditions applicable to the REIT (see "Description of the Bow Construction Financing Facility"). As a result, the REIT is limited by such covenants and conditions.

### **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 has diversified the REIT's holdings so that it owns several categories of properties (office, industrial and retail) and acquires income properties throughout Canada and the United States. In addition, management ensures that no tenant or related group of tenants, other than investment grade tenants, account for a significant portion of the cash flow. The only tenants which individually account for more than 5% of the rentals from income properties are Bell Canada, TransCanada PipeLines Limited, Telus Communications and Bell Mobility. Each of these companies that have a public debt rating is rated with at least an A low rating by a recognized rating agency. Once the Bow is completed, Encana is expected to also account for more than 5% of the rental from income properties. Encana's current public debt rating is A low.

### **Interest Rate and Other Debt Related Risks**

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

The REIT is exposed to financing risk on maturing mortgages, bank indebtedness and interest rate risk on its borrowings. It minimizes this risk by obtaining long-term, fixed rate debt to replace short-term floating rate borrowings. At December 31, 2010, the percentage of fixed rate debt to total debt was 94.2% (December 31, 2009 – 96.0%). In addition, the REIT matches the terms to maturity of its mortgages on specific properties to the corresponding lease terms to maturity as closely as possible. As at December 31, 2010, the REIT had been granted mortgage financings in the aggregate amount of approximately \$2.7 billion and the weighted average term to maturity of the mortgages was 8.0 years (December 31, 2009 – 8.3 years) compared to the remaining average lease term of 10.2 years (December 31, 2009 – 10.5 years). Only 6.5% of the total mortgage principal will mature before the end of 2011 and 13.8% of the total mortgage principal will mature before the end of 2012. The REIT also minimizes financing risk by restricting total debt (subject to certain exceptions) to 65% of aggregate

assets as well as by obtaining non-recourse debt wherever possible. At December 31, 2010, the debt to Gross Book Value ratio was 59.8% (December 31, 2009 – 58.9%), or 50.3% as calculated in accordance with the provisions of the REIT Declaration of Trust, while the percentage of non-recourse debt to total debt was 38.7% (December 31, 2010 – 43.2%). Per the REIT Declaration of Trust, total debt for this purpose excludes the Convertible Debentures and the U.S. Holdco Notes.

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

If the REIT indebtedness is replaced by new debt that has less favourable terms or the REIT is unable to secure adequate funding, distributions by the REIT to holders of REIT Units may be adversely impacted. In addition, failure by the REIT to comply with its obligations under the documents governing such indebtedness (including in the case of the credit facilities, the failure to meet certain financial ratios and financial conditions tests) may adversely impact cash distributions on the Stapled Units.

### **Liquidity Risk**

Real estate investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relationship with demand for and the perceived desirability of such investments. Such illiquidity will tend to limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If for whatever reason, liquidation of assets is required, there is a risk that sale proceeds realized might be less than the current book value of the REIT's investments or that market conditions would prevent prompt disposition of assets.

### **Tax Risk**

On October 31, 2006, the Minister of Finance announced significant changes to the tax treatment of publicly traded trusts and partnerships. Legislation amending the Tax Act to implement the new provisions (referred to herein as the “**SIFT rules**”) became law on June 22, 2007. The SIFT rules effectively tax certain income of a publicly traded trust 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 new tax regime applies only to “**SIFT trusts**” (as defined below), “SIFT partnerships” (as defined in the Tax Act), and their investors.

On December 20, 2007, the Minister of Finance (Canada) announced proposed technical amendments to the SIFT rules which should assist the REIT in meeting the REIT Exemption (as defined below). Legislation to implement these proposals became law on March 12, 2009. On December 16, 2010, the Minister of Finance announced further proposed amendments with respect to the REIT Exemption proposed to be effective January 1, 2011 (the “December 16 Amendments”).

A trust resident in Canada is generally defined as a “**SIFT trust**” if (a) investments in the trust are listed or traded on a stock exchange or other public market, (b) the trust holds one or more “non-portfolio properties”, and (c) the trust is not an “excluded subsidiary entity”. However, a trust will not be considered a SIFT trust for a taxation year if it qualifies as a “real estate investment trust” for the year (the “**REIT Exemption**”). A SIFT trust that does not meet the REIT Exemption may be eligible for grandfathering, such that the new regime would not have applied before 2011.

These rules are described in greater detail below.

Where the SIFT rules apply, distributions of a SIFT trust's "non-portfolio earnings" are not deductible in computing the SIFT trust's net income. Non-portfolio earnings are generally defined as income (other than certain dividends) from, and capital gains from the disposition of, "non-portfolio properties", as defined in the Tax Act. The SIFT trust is itself liable to pay an income tax on an amount equal to the amount of such non-deductible distributions at a rate that is substantially equivalent to the general tax rate applicable to taxable Canadian corporations. Such non-deductible distributions paid to a holder of units of the SIFT trust are generally deemed to be taxable dividends received by such holder from a taxable Canadian corporation. Such deemed dividends will generally qualify as "eligible dividends" for purposes of the enhanced gross-up and dividend tax credit available under the Tax Act to individuals resident in Canada.

The SIFT rules apply generally to the 2007 and subsequent taxation years of a SIFT trust. However, grandfathering may be available to a trust, such as the REIT, which was in existence on October 31, 2006. In order for the REIT to have been eligible for such grandfathering, the REIT (a) must have been a SIFT trust on October 31, 2006, and (b) must not at any time after December 15, 2006, have exceeded the normal growth guidelines released on that date by the Department of Finance, as such guidelines may be amended from time to time. On December 4, 2008, the Department of Finance issued explanatory notes to a November 28, 2008 notice of ways and means motion amending the normal growth guidelines. The amended guidelines generally permitted an existing SIFT trust to increase its equity capital from its level on October 31, 2006 by up to 40% by the end of 2007, by an additional 20% by December 3, 2008, and by a further additional 40% from December 4, 2008 to December 31, 2010. These safe harbour amounts were cumulative, such that a SIFT trust that increased its equity capital by less than the maximum permitted amount in a particular year would have additional safe harbour "room" in subsequent years.

If the REIT was grandfathered, neither the REIT nor holders of REIT Units were subject to the SIFT rules prior to the REIT's 2011 taxation year.

Management of the REIT believes that the REIT qualified for such grandfathering at all relevant times and in particular, that the REIT was a SIFT trust on October 31, 2006 and that the REIT did not exceed the normal growth guidelines at any time prior to 2011.

The SIFT rules do not apply to a publicly traded trust that qualifies as a "real estate investment trust" throughout a taxation year.

For this purpose, a trust is a "real estate investment trust" for a particular taxation year if the trust is resident in Canada throughout the taxation year, and:

- (a) the trust at no time in the taxation year holds any "non-portfolio property" other than "qualified REIT properties",
- (b) not less than 95% of the trust's revenues for the taxation year are derived from one or more of the following: (i) rent from real or immovable properties, (ii) interest, (iii) capital gains from dispositions of real or immovable properties, (iv) dividends, and (v) royalties,
- (c) not less than 75% of the trust's revenues for the taxation year are derived from one or more of the following: (i) rent from real or immovable properties, (ii) interest from mortgages, or hypothecs, on real or immovable properties, and (iii) capital gains from dispositions of real or immovable properties, and

- (d) at no time in the taxation year is the total fair market value of all properties held by the trust, each of which is a real or immovable property, indebtedness of a Canadian corporation represented by a bankers' acceptance, money or a deposit of money standing to the credit of the trust, a deposit with a credit union, or generally a debt obligation of a government in Canada or certain other public bodies less than 75% of the "equity value" of the trust at that time.

The December 16 Amendments propose to amend the requirements in paragraphs (a) and (b) above to provide that a "real estate investment trust":

- (a) may hold "non-portfolio properties" that are not "qualified REIT properties", provided that the fair market value of such properties is not greater at any time than 10% of the total fair market value of all "non-portfolio properties" held by the trust at that time, and
- (b) must derive not less than 90% (down from 95%) of the trust's "gross REIT revenue" from (i) rent from real or immovable properties, (ii) interest, (iii) capital gains from dispositions of real or immovable properties, (iv) dividends, (v) royalties, and (vi) gains from dispositions of "eligible resale properties".

For these purposes, an "eligible resale property" is defined as real or immovable property that is not capital property, held by an entity in which the trust holds a security, that is contiguous to a particular real or immovable property that is capital property of the entity or of another entity in which the trust holds a security, and the holding of which is necessary, and incidental, to the holding of that particular real or immovable property.

The December 16 Amendments also propose to add a requirement that in order for a trust to be a "real estate investment trust", investments in the trust must be publicly listed or traded on a stock exchange or other public market.

For purposes of the REIT Exemption, "rent from real or immovable properties" (a) includes (i) rent or similar payments for the use of, or right to use, real or immovable properties, (ii) payment for services ancillary to the rental of real or immovable properties and customarily supplied or rendered in connection with the rental of real or immovable properties, and (iii) amounts derived from rent from real or immovable properties through an intermediate trust; but does not include (b) (i) payment for services supplied or rendered, other than those described in subparagraph (a)(ii), to the tenants of such properties, (ii) fees for managing or operating such properties, (iii) payment for the occupation of, use of or right to use a room in a hotel or other similar lodging facility, or (iv) rent based on profits.

For purposes of the REIT Exemption, "real or immovable property" does not include any depreciable property, other than (i) a property included, otherwise than by an election permitted by regulation, in Class 1, 3 or 31 of Schedule II to the *Income Tax Regulations*, (generally, buildings), (ii) a property ancillary to the ownership or utilization of a property described in subparagraph (i), or (iii) a lease in, or a leasehold interest in respect of, land or property described in subparagraph (i).

However, real or immovable property does include a security of an entity that itself satisfies the conditions described in (a) to (d) under the description of a "real estate investment trust" above.

Based on the SIFT rules as enacted, management of the REIT believes that the REIT did not qualify for the REIT Exemption at any time since October 31, 2006 and before 2011. However, on November 30, 2009, the REIT and Finance Trust completed the 2009 Reorganization as part of the steps required to enable the REIT to qualify for the REIT Exemption and in 2010, the REIT completed the

restructuring of its affairs to qualify for the REIT Exemption commencing January 1, 2011. If at any time in a year after 2010, the REIT is considered not to have qualified for the REIT exemption, the REIT will be subject to tax as described above in that particular year.

Based on a review of the REIT's assets and revenues, management expects that the REIT will satisfy the tests to qualify for the REIT Exemption for 2011, both under the REIT Exemption as currently enacted and as proposed to be amended by the December 16 Amendments. In addition, management's current intention is to qualify for the REIT Exemption at all future times. However, there can be no assurances that the REIT will qualify for the REIT Exemption for 2011 or any future year.

After the Plan of Arrangement, Finance Trust now provides debt financing to U.S. Holdco. If the REIT provided debt financing to U.S. Holdco, 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 Code applies to defer U.S. Holdco's 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). If this limitation applied to interest paid to Finance Trust, depending on the facts and circumstances including the availability of net operating losses to U.S. Holdco, the U.S. federal income tax liability of U.S. Holdco could increase. In such case, the amount of income available for distribution by the REIT to its unitholders could be reduced.

The REIT treats the U.S. Holdco Notes as debt for U.S. federal income tax purposes and treats the interest rate on the U.S. Holdco Notes as an arm's-length rate. In this regard, the REIT obtained opinions from legal counsel and a financial advisor, respectively. Consistent with such treatment, U.S. Holdco deducts the interest payable on the U.S. Holdco Notes in computing its taxable income for U.S. federal income tax purposes. However, there can be no assurance that the U.S. Internal Revenue Service will not challenge such treatment. If some or all of the U.S. Holdco Notes were to be treated for U.S. federal income tax purposes as equity rather than debt, otherwise deductible interest on the U.S. Holdco Notes would instead be treated as non-deductible distributions by U.S. Holdco to Finance Trust. Even if the U.S. Holdco Notes are treated as debt for U.S. federal income tax purposes, there can be no assurance that the U.S. Internal Revenue Service will not be able to successfully challenge the interest rate on the U.S. Holdco Notes as an arm's length rate and, if successful, any excess amount over an arm's length rate might be recharacterized as a non-deductible distribution. In that event, U.S. Holdco's inability to deduct interest on the U.S. Holdco Notes may increase its taxable income and hence its U.S. federal income tax liability. In such case, the amount of income available for distribution by the REIT to its unitholders could be reduced.

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

There can be no assurance that income tax laws and the treatment of mutual fund trusts will not be changed in a manner which adversely affects holders of REIT Units. If the REIT or Finance Trust ceases to qualify as a "mutual fund trust" under the Tax Act and the units thereof cease to be listed on a

designated stock exchange (which includes the TSX), the REIT Units or Finance Trust Units, as the case may be, will cease to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds, registered education savings plans, registered disability savings plans and tax-free savings accounts.

### **The REIT is likely a PFIC**

Due to the nature of the REIT's assets and the income that it expects to generate, it is likely that the REIT is a PFIC. U.S. federal income tax laws contain rules which may result in materially adverse tax consequences to U.S. taxpayers that own shares of a corporation which has been classified as a PFIC during any taxable year of such taxpayer's holding period. U.S. Unitholders may mitigate such negative tax consequences by making certain U.S. federal income tax elections, which are subject to numerous restrictions and limitations. U.S. Unitholders are urged to consult their tax advisors regarding the acquisition, ownership, and disposition of REIT Units. See "The REIT – Passive Foreign Investment Company".

### **Ability to Access Capital Markets**

As the REIT distributes a substantial portion of its income to holders of REIT Units, 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 may be curtailed and cash available for distribution may be adversely affected.

### **Dilution**

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

### **Lease Rollover Risk**

Lease rollover risk arises from the possibility that the REIT may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants upon lease expiry. Management's strategy is to sign creditworthy tenants to leases that are long-term in nature which assists in the REIT's attempt to fulfill its primary goal of maintaining a predictable cash flow. The REIT has relatively few short to medium term lease rollovers as illustrated in a table at "Properties – Overview of Portfolio", which shows that leases representing only 16.4% of its total square footage expire by the end of 2015. The ability to rent unleased space in the properties in which the REIT has an interest will be affected by many factors. The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the REIT's financial condition.

### **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. See also “– Development and Financing Risk Relating to the Bow”. Management strives to mitigate these risks where possible by entering into fixed price construction contracts with general contractors (and to the extent possible, on a bonded basis) and by attempting to obtain long-term financing as early as possible during construction.

## **Debentures**

The likelihood that purchasers of the Convertible Debentures and the 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 the 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 and secured 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 to only the residual equity of its subsidiaries after all debt obligations of its subsidiaries are discharged. In the event of a bankruptcy, liquidation or reorganization of the REIT, holders of indebtedness of the REIT (including holders of Convertible Debentures and Senior 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 or 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.

## **Financing Credit Risk**

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

## **Currency Risk**

The REIT is exposed to foreign exchange fluctuations as a result of ownership of assets in the United States and the rental income 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 also exposed to foreign currency fluctuations as a result of the U.S. Holdco Notes being denominated in United States dollars.

## **Environmental Risk**

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

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

## **Redemption Right**

Holders of Stapled Units are entitled to have their REIT Units and Finance Trust Units redeemed at any time on demand (see "REIT Declaration of Trust and Description of REIT Units – Redemption of Units" and "Finance Trust Declaration of Trust and Description of Finance Trust Units"). It is anticipated that this redemption right will not be the primary mechanism for holders of Stapled Units to liquidate their investments. The aggregate cash redemption price payable by the REIT is subject to limitations. In certain circumstances, the REIT's Declaration of Trust provides for the *in specie* distributions of notes of HRP Trust in the event of redemption of REIT 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.

## **Unitholder Liability**

The REIT Declaration of Trust provides that no holder of REIT Units or annuitant under a plan of which a holder of REIT Units acts as trustee or carrier (an "**annuitant**") will be held to have any personal liability as such, and that no resort shall be had to, nor shall recourse or satisfaction be sought from, the private property of any holder of REIT Units or annuitant for any liability whatsoever, in tort, contract or otherwise, to any person in connection with property of the REIT or the affairs of the REIT including, without limitation, for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of the REIT or of the REIT Trustees or any obligation which a holder of REIT Units or annuitant would otherwise have to indemnify a REIT Trustee for any personal liability incurred by the REIT Trustee as such. Only assets of the REIT are intended to be liable and subject to levy or execution for satisfaction of such liability.

The REIT Declaration of Trust further provides that certain written instruments signed by the REIT (including all mortgages and, to the extent the REIT Trustees determine to be practicable and consistent with their fiduciary duty to act in the best interests of holder of REIT Units, other written instruments creating a material obligation of the REIT) shall contain a provision or be subject to an acknowledgment to the effect that such obligation will not be personally binding upon holders of REIT Units or upon and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any annuitant.

However, in conducting its affairs, the REIT has acquired and may acquire real property investments subject to existing contractual obligations, including obligations under mortgages and leases. The REIT Trustees will use all reasonable efforts to have any such obligations modified so as not to have such obligations personally binding upon any of the holders of REIT Units or annuitants. However, the REIT may not be able to obtain such modification in all cases. To the extent that claims are not satisfied by the REIT, there is a risk that a holder of REIT Units or annuitant will be held personally liable for obligations of the REIT where the liability is not disavowed as described above.

Personal liability may also arise in respect of claims against the REIT that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered remote as the nature of the REIT's activities are such that most of its obligations arise by contract and non-contractual risks are largely insurable. However, the insurance policies maintained by the REIT have exclusions for certain environmental liabilities. In the event that payment of a REIT obligation were to be made by a holder of REIT Units, such holder would be entitled to reimbursement from the available assets of the REIT.

The REIT Trustees will cause the activities of the REIT to be conducted with the advice of counsel, in such a way and in such jurisdictions as to avoid, to the extent they determine to be practicable and consistent with their fiduciary duty to act in the best interests of the holders of REIT Units, any material risk of liability on the holders of REIT Units for claims against the REIT. The REIT Trustees will, to the extent available on terms which they determine to be practicable, cause the insurance carried by the REIT, to the extent applicable, to cover the holders of REIT Units and annuitants as additional insured.

Legislation has been enacted in the Province of Ontario and certain other provinces that is intended to provide unitholders in those provinces with limited liability. On December 16, 2004, the *Trust Beneficiaries' Liability Act, 2004* (Ontario), came into force. Such legislation provides that unitholders of a trust that is a reporting issuer and governed by the laws of Ontario are not liable, as beneficiaries, for any act, default, obligation or liability of the trust or any of its trustees that arise after the legislation came into force. A trust is considered governed by the laws of Ontario if its declaration of trust or other constating instrument contains the customary provision to that effect. The REIT Declaration of Trust contains such a provision, and accordingly, the holders of REIT Units are protected by this legislation. However, there remains a risk, which the REIT considers to be remote in the circumstances, that a holder of REIT Units could be held personally liable for the REIT's obligations to the extent that claims are not satisfied out of the REIT's assets. It is intended that the REIT's affairs will be conducted to seek to minimize such risk wherever possible.

### **Impact of Adoption of IFRS**

IFRS will replace current Canadian GAAP for publicly accountable enterprises beginning in 2011. For the REIT, IFRS will be effective for interim and annual periods commencing January 1, 2011, including the preparation and reporting of comparative figures for 2010. The impact of IFRS on the REIT's consolidated financial results at the time of transition is dependent upon prevailing business circumstances, market factors and economic conditions at that time, as well as the accounting elections made. As a result, any transition impact disclosed by the REIT is subject to change.

### **Real Property Ownership**

All real property investments are subject to a degree of risk and uncertainty. Such investments are affected by various factors including general economic conditions, local real estate markets, demand for leased premises, competition from other available premises and various other factors.

The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants. Distributable Cash and the REIT's income would be adversely affected if one or more major tenants or a significant number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in the properties in which the REIT has an interest is not able to be leased on economically favourable lease terms. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting the REIT's investment may be incurred. The ability to rent unleased space in the properties in which the REIT has an interest will be affected by many factors. Costs may be incurred in making improvements or repairs to property required by a new tenant. A prolonged deterioration in economic conditions could increase and exacerbate the foregoing risks. The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the REIT's financial condition.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing any income. If the REIT is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relationship with demand for and the perceived desirability of such investments. Such illiquidity will tend to limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If for whatever reason, liquidation of assets is required, there is a risk that sale proceeds realized might be less than the current book value of the REIT's investments or that market conditions would prevent prompt disposition of assets.

The REIT may, in the future, be exposed to a general decline of demand by tenants for space in properties. As well, certain of the leases of the properties held by the REIT have early termination provisions which, if exercised, would reduce the average lease term. However, such termination rights are generally exercisable only at a cost to the tenant and the amount of space in the portfolio of properties currently held by the REIT which could be affected is not significant.

A mortgage on any one property may, from time to time, exceed the estimated current market value of the related property. The cash flow from such a property may not be sufficient to cover debt servicing for that property. The cash flow from the portfolio of properties currently held by the REIT is, however, expected by management to be sufficient to cover any cash flow shortfalls on such a property.

### **Co-Ownership Interest in Properties**

In certain situations, the REIT may be adversely affected by a default by a co-owner of a property under the terms of a mortgage, lease or other agreement. Although all co-owners agreements entered into by the REIT provide for remedies to the REIT in such circumstances, such remedies may not be exercisable in all circumstances, or may be insufficient or delayed, and may not cure a default in the event that such default by a co-owner is deemed to be a default of the REIT.

### **Dependence on Key Personnel**

The management of the REIT and the Property Manager depend on the services of certain key personnel, including Thomas J. Hofstedter. The loss of the services of any of these key personnel could have an adverse effect on the REIT.

## **Competition for Real Property Investments**

The REIT competes for suitable real property investments with individuals, corporations, other real estate investment trusts and institutions (both Canadian and foreign) which are presently seeking, or which may seek in the future, real property investments similar to those desired by the REIT. Many of these investors have greater financial resources than those of the REIT, or operate without the REIT's investment restrictions, or according to more flexible conditions. An increase in the availability of investment funds, and an increase in interest in real property investments, would tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yields thereon.

## **Influence of the Property Manager over the REIT**

The Property Manager, which is associated with certain members of the H&R Group, entered into the Omnibus Management Agreement pursuant to which the Property Manager has general responsibility for the overall management, maintenance and operation of the Properties (subject to certain exemptions). The Omnibus Management Agreement also contemplates that the Property Manager provides support services in connection with the acquisition and development activities of the REIT. The Omnibus Management Agreement is a long-term agreement, and accordingly, at times may not reflect current market terms for property management agreements. Additionally, there is a risk that, because of the terms of the Omnibus Management Agreement, termination of the agreement may be uneconomical for the REIT and accordingly not in the best interest of the REIT. Should the Omnibus Management Agreement be terminated it may be difficult for the REIT to find another property manager with the experience, ability and geographic scope of the Property Manager, which may require the REIT to engage the services of several property managers. There is also a risk that the REIT may be unable to engage a replacement property manager or property managers on acceptable terms, in which case the REIT's operations and cash available for distribution may be adversely affected.

## **Potential Conflicts of Interest**

The REIT may be subject to various conflicts of interest because of the fact that the members of the H&R Group and the Property Manager and their respective directors, officers and associates, as well as the REIT Trustees, are engaged in a wide range of real estate and other business activities. The REIT may become involved in transactions which conflict with the interests of the foregoing.

The REIT Trustees and associates or affiliates of the Property Manager may from time to time deal with persons, firms, institutions or corporations with which the REIT may be dealing, or which may be seeking investments similar to those desired by the REIT. The interests of these persons could conflict with those of the REIT. In addition, from time to time, these persons may be competing with the REIT for available investment opportunities.

Any decisions regarding the enforcement by the REIT of the terms of any agreement entered into by the REIT with a non-Independent REIT Trustee, with the Property Manager or an affiliate thereof, or with an associate of a non-Independent REIT Trustee or the Property Manager may be made by a majority of the Independent REIT Trustees. There is a risk that non-Independent REIT Trustees may attempt to influence the Independent REIT Trustees in this regard.

The REIT Declaration of Trust contains "conflicts of interest" provisions requiring REIT Trustees to disclose material interests in material contracts and transactions and refrain from voting thereon. See "Management of the REIT – Conflict of Interest Restrictions and Provisions"

The REIT entered into the Non-Competition Agreement with certain parties which addresses certain potential conflicts of interest. See “Non-Competition Arrangements”.

### **Uncoupling of Stapled Units**

An Event of Uncoupling shall occur only: (a) in the event that holders of REIT Units vote in favour of the uncoupling; or (b) at the sole discretion of the Finance Trust Trustees, but only in response to certain insolvency-related events in respect of the REIT or U.S. Holdco (see “Description of Stapled Units – An Event of Uncoupling”). As a result of changes in applicable Canadian or U.S. tax laws, or otherwise, it may become desirable to uncouple REIT Units and Finance Trust Units such that the two securities trade separately. There can be no guarantee that such an uncoupling will be accomplished in a timely manner, or at all, and the REIT may incur significant expenditures related to administrative expenses, legal and tax advice, in respect of holding a meeting of holders of REIT Units or otherwise to effect an uncoupling of REIT Units and Finance Trust Units. The market value of the Stapled Units may decline significantly if a desirable uncoupling cannot be effected in a timely manner, or at all.

### **Trading Market for the Debentures**

The outstanding 2013 Convertible Debentures, 2014 Convertible Debentures, 2017 Convertible Debentures and 2020 Convertible Debentures are listed on the TSX and commenced trading under the symbol “HR.DB” on June 6, 2008, “HR.DB.B” on June 30, 2009, “HR.DB.C” on December 30, 2009, and “HR.DB.D” on July 27, 2010, respectively. No assurance can be given as to whether an active trading market will be maintained for such debentures. To the extent that an active trading market for each series of Convertible Debenture is not maintained, the liquidity and trading prices for such debentures may be adversely affected.

### **Inability of the REIT to Purchase Convertible Debentures on a Change of Control**

The REIT may be required to purchase all outstanding Convertible Debentures and Senior Debentures upon the occurrence of a Change of Control. However, it is possible that following a Change of Control, the REIT will not have sufficient funds at that time to make any required purchase of such outstanding debentures or that restrictions contained in other indebtedness will restrict those purchases. See “Description of Convertible Debentures — Put Right Upon a Change of Control” and “Description of Senior Debentures – Change of Control”.

### **Investment Eligibility**

The REIT will endeavour to ensure that the Stapled Units continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds, registered education savings plans, registered disability savings plans and tax-free savings accounts. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and there is no assurance that the conditions prescribed for such qualified or eligible investments will be adhered to at any particular time.

### **Conversion Following Certain Transactions**

In the case of certain transactions, each Convertible Debenture will become convertible into the securities, cash or property receivable by a Unitholder in the kind and amount of securities, cash or property into which such debenture was convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Convertible Debentures in the future. For example, if the REIT were acquired in a cash merger, each

Convertible Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on the REIT's future prospects and other factors.

### **Value of Conversion Privilege**

In the event that a Change of Control occurs, holders of Convertible Debentures will have the right to require the REIT to redeem such debentures in an amount equal to 101% of the principal amount of the Convertible Debentures, plus accrued and unpaid interest until the date of redemption. In the event that holders of any series of Convertible Debentures holding 90% or more of such debentures exercise their right to require the REIT to redeem such Convertible Debentures, the REIT may acquire the remaining Convertible Debentures of such series on the same terms. In such event, the conversion privilege associated with the Convertible Debentures would be eliminated.

Further, whenever the conversion privilege is exercised by a holder of Convertible Debentures, Finance Trust is required to issue Finance Trust Units pursuant to the Support Agreement upon delivery of the subscription price therefor by the REIT. It is possible that the delivery of such subscription price by the REIT could be adversely impacted by the financial performance of the REIT.

### **Redemption Prior to Maturity**

The Convertible Debentures and Senior Debentures may be redeemed, at the option of the REIT, in whole at any time or in part from time to time after dates specified in the applicable trust indenture, subject to certain conditions for redemptions prior to the maturity date of such debenture, at a price equal to the principal amount thereof plus accrued and unpaid interest (see "Description of Convertible Debentures – Redemption" and "Description of Senior Debentures – Redemption"). Holders of Convertible Debentures and Senior Debentures should assume that this redemption option will be exercised if the REIT is able to refinance at a lower interest rate or it is otherwise in the interest of the REIT to redeem such debentures.

### **Statutory Remedies**

The REIT is not a legally recognized entity within the relevant definitions of the *Bankruptcy and Insolvency Act*, the *Companies' Creditors Arrangement Act* and in some cases, the *Winding Up and Restructuring Act*. As a result, in the event a restructuring of the REIT were necessary, the REIT would not be able to access the remedies available thereunder.

## **ADDITIONAL INFORMATION**

Additional information, including REIT Trustees' and officers' remuneration and indebtedness, principal holders of the REIT's securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in the REIT's Management Information Circular for its most recent annual meeting of security holders that involves the election REIT Trustees. Additional financial information is provided in the REIT's comparative financial statements and management's discussion and analysis for its most recently completed financial year.

Additional information relating to the REIT may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Information relating to Finance Trust may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## SCHEDULE A

### H&R REAL ESTATE INVESTMENT TRUST

#### Audit Committee Charter

##### PURPOSE

The trustees (the “**Trustees**”) of H&R Real Estate Investment Trust (the “**Trust**”) have established an audit committee (the “**Audit Committee**”) to assist them in fulfilling their responsibility for overseeing the Trust’s financial reporting process in accordance with section 8.03 of the Trust’s Amended and Restated Declaration of Trust (the “**Declaration of Trust**”) dated as of May 15, 2009. This Charter sets out the mandate and responsibilities of the Audit Committee as required by the Declaration of Trust and National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”).

##### COMPOSITION

The Audit Committee shall be comprised of not fewer than three Trustees, each of whom is an independent Trustee, and a majority of whom must be resident Canadians. For purposes of this Charter, an “**independent**” Trustee is one who has no direct or indirect material relationship with the Trust and is an Independent Trustee (as such term is defined in the Declaration of Trust), provided, however, that if at any time a member of the Audit Committee ceases to be an independent Trustee for reasons outside the member’s reasonable control or there is a vacancy on the Audit Committee because of the death, disability or resignation of such Trustee, this requirement shall not be applicable for a period ending on the later of (i) the next annual meeting of unitholders or (ii) six months from the date that the vacancy is created or the event which caused the Trustee not to be independent, as the case may be, only if the remaining Trustees have determined that not complying with this requirement will not materially adversely affect the ability of the Audit Committee to act independently and to satisfy the requirements of NI 52-110. A “**material relationship**” is a relationship which could, in the view of the Trustees, reasonably interfere with the exercise of a Trustee’s independent judgement. Examples of individuals with a material relationship to the Trust may include:

- (a) an individual who is, or who has been within the last three years, an employee or executive officer of the Trust;
- (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the Trust;
- (c) an individual who (i) is a partner of a firm that is the Trust’s internal or external auditor, (ii) is an employee of that firm, or (iii) was within the last three years a partner or employee of that firm and personally worked on the Trust’s audit within that time;
- (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual (i) is a partner of a firm that is the Trust’s internal or external auditor, (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, (iii) or was within the last three years a partner or employee of that firm and personally worked on the Trust’s audit within that time;
- (e) an individual who, or whose immediate family member, is or has been within the last three years an executive officer of an entity if any of the Trust’s current executive officers serves or served at that same time on the entity’s compensation committee;

- (f) an individual who received, or whose immediate family member who is employed as an executive officer of the Trust received, more than \$75,000 in direct compensation during any 12 month period within the last three years, other than as remuneration for acting in his capacity as a Trustee or as a member of any committee of the Trustees;
- (g) an individual who accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the Trust or any of its subsidiary entities, other than as remuneration for acting in his capacity as a Trustee or as a member of any committee of the Trustees, or as a part-time chair or vice-chair of the board of Trustees or any committee of the Trustees; and
- (h) an individual who is an affiliated entity of the Trust or any of the Trust's subsidiary entities.

This list is not meant to be exhaustive. For further guidance on the issue of independence, Trustees should consult sections 1.4 and 1.5 of NI 52-110.

All members of the Audit Committee shall be financially literate. “**Financial literacy**” means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Trust's financial statements.

## **AUTHORITY**

In recognition of the fact that the external auditors are ultimately accountable to the Trustees and the Audit Committee as representatives of the unitholders, the Audit Committee shall have the primary responsibility to select, evaluate and recommend to the Trustees the appointment or re-appointment and where appropriate, replacement of, the external auditors for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Trust. The Audit Committee shall also review and recommend to the Trustees all audit engagement fees and terms and pre-approve all non-audit engagements with and services to be provided by the external auditors to the Trust or its subsidiary entities. The Audit Committee will also discuss the rotation of the engagement of the audit partners when required. The Audit Committee shall consult with management but shall not delegate its responsibilities. The Audit Committee will also have the authority to communicate directly with the Trust's external auditors and any internal auditors. The external auditors will report directly to the Audit Committee.

## **RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties, the Audit Committee shall:

- (a) Review the accounting principles, policies and practices followed by the Trust and its subsidiaries and controlled entities in accounting for and reporting its financial results of operations and satisfy themselves as to the appropriateness thereof.
- (b) Review the Trust's audited annual consolidated financial statements and the unaudited quarterly financial statements and report thereon to the Trustees before the Trust publicly discloses this information.

- (c) Review and recommend to the Trustees for approval any Management's Discussion and Analysis and annual and interim earnings press releases before the Trust publicly discloses this information.
- (d) Make recommendations to the Trustees with respect to the selection of the external auditors to be put forward to the unitholders at the annual meeting.
- (e) Obtain annually a formal written statement from the external auditors delineating all relationships between the audit firm and the Trust, and review and discuss with the external auditors such relationships to determine the "independence" of the auditors.
- (f) Review any management letter prepared by the external auditors concerning the Trust's internal financial controls, record keeping and other matters and management's response thereto.
- (g) Discuss with the external auditors their views about the quality of the implementation of Canadian generally accepted accounting principles, with a particular focus on the accounting estimates and judgments made by management and management's selection of accounting principles and meet in private with appropriate members of management and separately with the external auditors to share perceptions on these matters, discuss any potential concerns and agree upon appropriate action plans.
- (h) Approve the scope of the annual audit, the audit plan, the access granted to the Trust's records and the co-operation of management in any audit and review function and pre-approves the scope and cost of any non-audit services to be undertaken by the Trust's external auditors.
- (i) Directly oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Trust, including the resolution of disagreements between management and the external auditors regarding financial reporting.
- (j) Review the effectiveness of the independent audit effort, including approval of the fees charged in connection with the annual audit, any quarterly reviews and any non-audit services being provided.
- (k) Assess the effectiveness of the working relationship of the external auditors with management and resolve any disagreements between management and external auditors regarding financial reporting.
- (l) Review annually this Charter for adequacy and recommend any changes to this Charter to the Trustees.
- (m) Report to the Trustees on the major items covered at each Audit Committee meeting and make recommendations to the Trustees and management concerning these matters.
- (n) Require officers of the Trust to review the Trust's public disclosure of financial information extracted or derived from the Trust's financial statements.

- (o) Ensure that the appropriate internal controls over financial reporting are in place, so as to permit the Chief Executive Officer and the Chief Financial Officer to provide the required certification of the Trust's annual and interim filings.
- (p) Review and approve the Trust's hiring policies regarding partners, employees and former partners and employees of present and former external auditors of the Trust.
- (q) Ensure that the financial information required by the various committees of the Trustees is available to them so as to permit them to fulfil their mandates.
- (r) Establish procedures for the receipt, retention and treatment of complaints received by the Trust regarding accounting, internal accounting controls, or auditing matters and the confidential, anonymous submission by employees of the Trust of concerns regarding questionable accounting or auditing matters.
- (s) Perform any other activities consistent with this Charter, the Declaration of Trust and governing law as the Audit Committee or the Trustees deem necessary or appropriate.

#### **RELATIONSHIP TO INTERNAL AUDIT**

The Audit Committee will:

- (a) Review and approve management's decisions relating to any potential need for internal auditing, including whether this function should be outsourced and if such function is outsourced, approve the supplier of such service.
- (b) Ensure that an effective system of internal control over financial reporting has been designed and is being implemented.
- (c) Approve the mandate for the internal audit function, if any.
- (d) Review annually the internal audit department's objectives, goals, staffing and financial budget, if any.
- (e) Ensure that the Chief Financial Officer has direct and open communication with the Audit Committee with respect to planned audits, findings, recommendations and management response thereto, and that he or she meets with the Audit Committee without other management personnel present.
- (f) Ensure that, taken together, the work of the external auditors and any internal auditors provide an appropriate level of audit coverage and are effectively coordinated.

#### **AUDIT COMMITTEE MEETINGS**

The Audit Committee will meet on a regular basis, at least quarterly, and will hold special meetings as circumstances require. The auditors of the Trust are entitled to receive notice of every meeting of the Audit Committee and, at the expense of the Trust, to attend and be heard thereat and, if so requested by a member of the Audit Committee, shall attend any meeting of the Audit Committee held during the term of office of the auditors. The auditors of the Trust or a member of the Audit Committee may call a meeting of the Audit Committee on not less than 48 hours' notice. The procedure at meetings shall be determined by the Chairman of the Audit Committee. At least two-fifths of the members of the

Audit Committee present in person or participating by conference telephone shall constitute a quorum of the Audit Committee (provided that a majority of the members comprising such quorum shall not be non-residents of Canada).

The acts of the Audit Committee at a duly constituted meeting shall require no more than the vote of a majority of the members present. A resolution or other instrument in writing signed by all members of the Audit Committee shall constitute an act of the Audit Committee.

## **RESOURCES**

The Audit Committee shall have the authority to (i) retain independent legal, accounting and other consultants to advise it as it deems necessary to carry out its duties and (ii) to set and pay the compensation for any such consultants. The Audit Committee may request that any member of management or outside consultant attend a meeting of the Audit Committee or meet with any members of, or consultants to, the Audit Committee.

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