

H&R REAL ESTATE INVESTMENT TRUST

H&R FINANCE TRUST

Notes to Combined Financial Statements

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

Years ended December 31, 2010 and 2009

24. Assets held for sale and discontinued operations (continued):

The REIT sold two properties during the year ended December 31, 2010 and seven properties in the year ended December 31, 2009. The results of operations from these properties are disclosed below:

Net earnings from discontinued operations	2010	2009
Operating revenue:		
Rentals from income properties	\$ 989	\$ 17,533
Straight-lining of contractual rent	(129)	1,264
Rent amortization of tenant inducements	-	(92)
Rent amortization of above- and below-market rents	-	8
	860	18,713
Interest income	-	3
	860	18,716
Operating expenses:		
Property operating costs	302	4,700
Contractual interest on mortgages payable	-	5,759
Effective interest rate accretion	-	280
Bank interest and charges	-	11
Depreciation and amortization	41	1,766
	343	12,516
Net property operating income	517	6,200
Gain on sale of income properties	3,576	10,649
Non-controlling interest (note 10)	(149)	(621)
Net earnings from discontinued operations	\$ 3,944	\$ 16,228

25. Commitments and contingencies:

- (a) The REIT is currently constructing a two million square foot office building in Calgary, Alberta (the "Bow"), which is fully pre-leased to EnCana Corporation for a 25-year term. The REIT has committed to incurring additional construction and development costs for this project of approximately \$397,000, including capitalized interest, over the remaining construction period, of which approximately \$360,000 is expected to be incurred during the next twelve months. As at December 31, 2010, the total cost incurred on the project amounted to \$1,150,094 (note 4) (2009 - \$719,173). This budget includes the construction of 1,360 parking stalls. Construction commenced in the spring of 2007 and is planned to be completed in 2012 to meet the completion timetable. The first four tranche completion dates upon which floors are scheduled to be delivered to EnCana Corporation are as follows: floors 1-14 by July 3, 2011, floors 15-24 by August 29, 2011 and floors 25-42 by October 12, 2011. The delivery schedule of floors 43-59 is expected to be set by the end of March 2011. In certain circumstances, should the delivery of tranches of space within the project be delayed, the REIT will be liable to the tenant for certain delay costs in the form of free rent, which may be significant.