Northern Property Real Estate Investment Trust

2011

ANNUAL REPORT

Corporate Profile

Northern Property Real Estate Investment Trust ("NPR") owns and operates rental real estate in secondary markets in Canada. NPR has significant multi-family residential real estate investments in Alberta, a growing position in British Columbia, and is the largest multi-family residential landlord in each of the Northwest Territories, Nunavut and the Province of Newfoundland and Labrador, and has recently entered into the Saskatchewan market. NPR's income producing portfolio is primarily residential which includes multi-family apartment rental units, furnished execusuites and master leased seniors' buildings. NPR also has a portfolio of commercial buildings focused on government tenancies predominantly located in Canada's far north.

Geographically Diversified

NPR operates in six diverse regions of Canada: Nunavut, the Northwest Territories, Newfoundland and Labrador, Alberta, British Columbia, and more recently in Saskatchewan. NPR focuses on acquiring property in regions that are naturally wealthy or have the potential of becoming so. NPR is engaged in northern areas where growth rates are generally higher and competition more restrained than in the metropolitan areas.

Residential/Government Focus

NPR's primary business is providing rental residential property to Canadians in these carefully selected communities. Our definition of housing is broad. NPR owns and operates rental apartments, town homes and mixed use properties. NPR is a significant provider of housing to government and corporations, which sublet our units to their staff. NPR provides furnished executive-suite accommodation in selected locations. The REIT also owns and leases residential buildings and lands to companies which are in the business of providing accommodation and care services to seniors. A strategic review of NPR's investment in seniors' facilities is underway. This may lead to the divestiture of some or all of these assets.

In addition, NPR has a portfolio of commercial properties primarily located in its northern communities. Our commercial property most often involves government or corporate covenants and longer-term leases.

Exposure to Canada's Natural Resource Economy

NPR's cities and towns are multi-faceted economically and often have an important natural resource component. Our properties are in communities which have leadership positions in oil, natural gas, diamonds, forestry products or agriculture. The communities in which we invest are filled with people who produce the commodities for which Canada is famous. NPR embraces the great Canadian resource economy.

Conservatively Managed

The Trust operates on a financially prudent basis. NPR's debt to the Fair Market Value of its assets at year end was 47.8 percent. The 2011 FFO payout ratio was 65.3 percent.

Change in Accounting Standards in Canada

NPR's financial results for 2010 have been revised to comply with International Financial Reporting Standards ("IFRS") adopted for reporting periods beginning January 1, 2011.

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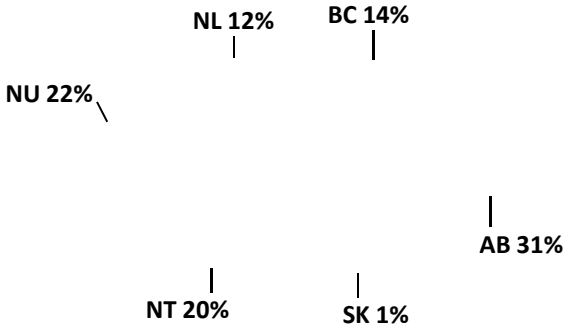
Our Results

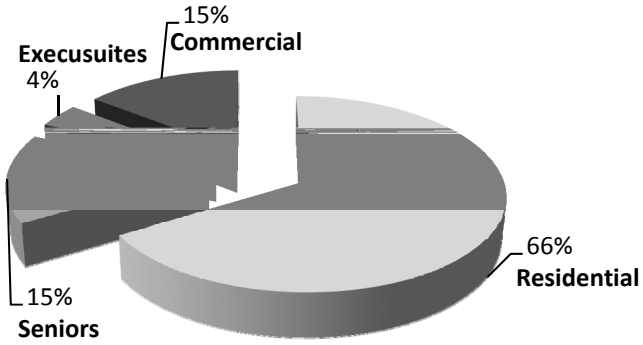
	2011	2010
Total revenue ($000s)	**158,661**	139,750
Net operating income ($000s)	**103,076**	91,964
Assets ($000s)	**1,333,073**	1,131,016
Funds from operations * ($000s)	**67,421**	55,523
Funds from operations per unit **	**$2.35**	$2.16
Distributions per unit	**$1.530**	$1.501
FFO Payout ratio	**65.3%**	70.0%
Number of residential units at December 31	**9,563**	8,419
Total commercial square feet at December 31	**1,012,517**	903,352

*Please refer to Basis of Presentation on page 5.
**Please refer to Non-IFRS Financial Measures on page 7.

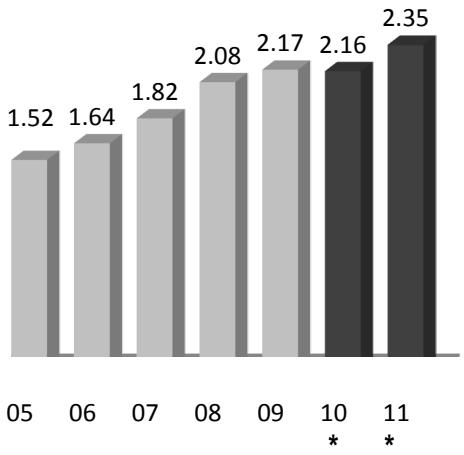
Total Assets by Area



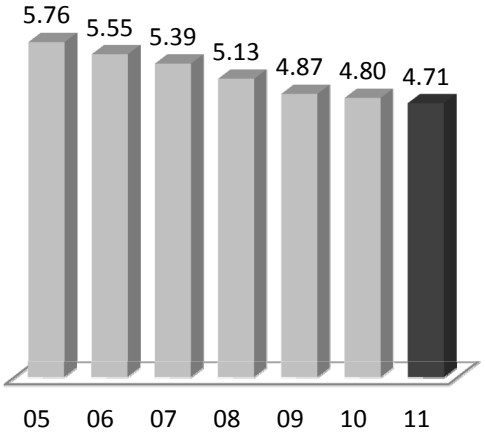
Total Assets by Type



Funds from Operations per Unit ($)



Average Interest Rate (%)



*2010 and 2011 reflect the adoption of IRFS accounting standards.

Letter to Unitholders

Dear Fellow Unitholders:

I am pleased to provide some thoughts respecting NPR's 2011 operations and financial results together with some comments about what the future may hold for our business.

Tenth Anniversary as a REIT

On May 29, 2012, Northern Property will have completed its 10th year as a real estate investment trust. Sometimes it is important to set aside the day-to-day vagaries of business and the stock market to consider from whence we have come. As we prepare to enter our second decade, this is such an occasion.

The REIT in 2002 was a much different entity. A review of the IPO Prospectus presented to investors 10 years ago suggested that Northern Property represented "a unique opportunity to invest in the fastest growing economy in Canada with the dominant player in the northern Canadian real estate market." The REIT's IPO properties were almost entirely in Nunavut and the Northwest Territories and featured "significant barriers to entry" with "strong and growing rental rates." The IPO Prospectus went on to say that cash flows were supported by government and large corporation leases. "Higher capitalization rates in combination with CMHC guaranteed financing offered significant positive spread investing opportunities." The objectives of NPR were to "provide unitholders with stable and growing cash distributions and maximize unit value through the acquisition of additional residential and commercial property." A portion of the IPO proceeds were to be used to buy properties in Fort McMurray, Alberta.

In 2002 an investment based upon real estate in remote northern communities was not an easy sell. This was a couple of years before the Canadian resources boom. Many Canadians had scarcely heard of places like Yellowknife, Iqaluit and Fort McMurray. Some were skeptical about these as attractive real estate locations. However, NPR was able to successfully conclude its IPO offering of $66 million and the REIT was launched!

As we enter our second decade, much has changed but there is also much that has remained the same. Our unwavering faith in the future of the emerging parts of Canada has proven to be successful for our real estate and also for investors. NPR has grown from an enterprise value of approximately $150 million at inception to well over $1 billion today. We have expanded from around 1,500 residential units and 250,000 square feet of commercial space to more than 9,500 units and one million square feet of commercial space. Trust units issued at $10.00 per unit now trade in the $30.00 range. Cash distributions have been increased systematically from $1.15 in 2002 to $1.53 today.

The communities in which we initially invested have also changed. Nunavut has grown from a fledgling government-based territory to an area enjoying enormous resource interest and investment. The Northwest Territories has become the third largest producer of diamonds in the world and is known as the repository of a host of mineral and oil and gas resources. Northern Alberta has been transformed with cities like Grande Prairie and Fort McMurray becoming booming centers of industry and economic activity.

Over 10 years the REIT has expanded into other jurisdictions as well. In 2003, we began to sense that Newfoundland and Labrador, long the victim of economic misfortune, was about to change. Over the next few years NPR bought and renovated 1,300 apartments and became the largest residential landlord joining in the economic renaissance which that Province is now enjoying. We expanded into Northern BC which was enjoying the prosperity associated with coal, natural gas, oil and forestry. We bought in the Nanaimo area of Vancouver Island which seemed overlooked as a centre of population growth. And in 2011, we finally entered the Saskatchewan apartment market with our first building.

In 2006, NPR began experimentation with the ownership of master-leased seniors' facilities in Western Canada and in Newfoundland and Labrador. While these investments provided unitholders with a positive yield, the seniors' portfolio has been a somewhat uncomfortable fit inside the REIT. Management and the Board of Trustees launched a strategic review of its seniors' investments in 2011. As a result, we have decided to sell many of these homes. While it is not certain that sales will be concluded, the REIT remains committed to no further expansion in the field of seniors' accommodations.

2011

2011 was a very successful year for the REIT financially as our properties had fully recovered by year's end from some vacancy issues in a few markets experienced in 2009 and 2010.

Vacancy in the Nunavut Territory remained below 1% and Iqaluit successfully absorbed a 32-unit luxury apartment complex which the REIT developed during the winter of 2011. Northwest Territories vacancy was steady in Yellowknife in the 2% range for most of the year while Inuvik was somewhat weaker as local economic conditions contracted. Northern Alberta, hard-hit by the collapse in oil and gas prices during the recession, came back strongly during the year. Northern British Columbia was a pleasant surprise recording vacancy well below its 12% norms as a result of positive prices for natural gas liquids and coal. Our commercial business had a good year in 2011 with vacancy in the 3% range. The seniors' portfolios performed according to expectations.

The positive real estate performance inevitably led to buoyant financial results. FFO per unit reached a record $2.35 for the year, well above the achievements of previous years. The FFO payout ratio declined to 65.3%. Debt and interest coverage ratios were robust.

NPR's costly 2010 reorganization to create a stapled structure and put our non-qualifying assets into a tax-paying corporation proved to have very short term benefits for unitholders. On July 20, 2011, the Minister of Finance announced that stapled structures were also out of favour. Today we await, as we have done for five years, the issuance of the final rules respecting REIT taxation. These may be issued in connection with the Federal budget to be tabled at the end of March. As soon as the rules are issued, NPR will immediately take steps to comply.

Approximately $150 million of real estate investment was carried out during 2011. The anchor deal was a $79 million transaction in Iqaluit which included stabilized, newly constructed rental property, and also several development sites. Property purchases were concluded in St. John's, Labrador City, Jasper, Fort St. John and Saskatoon.

Looking Ahead

In the event NPR sells its seniors' facilities, and at the date of writing this is not certain, a major challenge would be the redeployment of proceeds. Real estate values have risen and rates of return on investment are less than they were five years ago when much of our seniors' property was bought. The loss of the net rental income from the seniors' buildings would take some time to replace.

Many of the properties which the REIT acquired in the IPO in 2002 had been built by predecessor companies managed by individuals who are still members of the REIT's management team. With older apartment buildings now becoming very expensive, and population growth and condo conversions creating new demand, NPR believes that the development of new buildings in selected growth markets can generate better returns than buying existing. NPR has 87 units under development in Iqaluit. New development projects are planned for Iqaluit, Yellowknife and Lloydminster for 2012. Projects are on the drawing boards for Labrador City and Regina for 2013. New building development is planned to be a key factor in NPR's future growth.

NPR has assembled a deep, talented and committed management team. Key executives were reassigned to new duties early in 2011 to broaden skill sets and management experiences. A youthful yet highly experienced and proven slate of managers is stepping up to the plate.

NPR's original value proposition remains intact. The thesis that non-metropolitan residential real estate can result in superior returns has been demonstrated throughout the last decade. Much of what makes Canada great is produced in the regional cities and towns close to mines, oil and gas, forests, and agriculture. These communities of economic fulfillment are often strikingly beautiful into the bargain - great places for Canadians to start their careers and begin their families. Northern Property's job is to provide sensible, good quality housing to those who make their homes in these communities.

We are proud of this work and know that it has a great future.

Respectfully submitted,

B. James Britton,
President and Chief Executive Officer

March 23, 2012

Management's Discussion and Analysis

Management's Discussion and Analysis ("MD&A") of financial conditions and results of operations should be read in conjunction with Northern Property Real Estate Investment Trust (the "REIT") and NorSerCo Inc.'s ("NorSerCo") audited combined financial statements for the years ended December 31, 2011 and 2010 ("NPR" or the "Entities"). This MD&A is intended to provide readers with management's assessment of the performance of the Entities as well as their financial position and future prospects.

BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as prescribed by the International Accounting Standards Board ("IASB"). These standards are required to be adopted by all Publicly Accountable Enterprises for reporting periods beginning January 1, 2011. Financial data included in this MD&A includes information up to March 13, 2012. Prior year (2010) financial information has been restated to comply with IFRS and the financial statements include reconciliations of equity and profit or loss for comparative periods reported under Canadian GAAP ("GAAP") to those reported for those periods under IFRS. See discussion of International Financial Reporting Standards for additional information. All dollar amounts shown are in Canadian currency.

FORWARD LOOKING DISCLAIMER

Certain information contained in this MD&A may constitute forward-looking statements within the meaning of securities laws relating to the business and financial outlook of NPR. Statements which reflect NPR's current objectives, plans, goals and strategies are subject to risks, uncertainties and other factors which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements. In some instances, forward-looking information can be identified by the use of terms such as "may", "should", "expect", "will", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue", or other similar expressions concerning matters that are not historical facts. Forward-looking statements include, but are not limited to statements related to acquisitions or divestitures, development activities, future maintenance expenditures, financing and the availability of financing, tenant concessions and vacancy levels and involve significant risks and uncertainties and are not meant to provide guarantees of future performance or results. All of the statements and information contained in this MD&A incorporating forward-looking information are qualified by these cautionary statements.

Management is continuing the strategic review of NPR's master leased seniors' facilities in Western Canada and is continuing to negotiate the sale of the Newfoundland seniors' properties to the current operators. The results of operations for NPR's seniors' business segment are reported as discontinued operations in the accompanying financial statements and this MD&A. The fair value of the investment property less estimated costs to sell and other seniors' business segment assets have been classified as assets held for sale; mortgage debt and other liabilities have been disclosed as liabilities related to assets held for sale on NPR's audited combined Statement of Financial Position. On March 5, 2012 NPR completed the sale of a 74 unit seniors' facility in Newfoundland to its owner-operator for gross proceeds of $6.8 million. The intended use of the net cash proceeds from the sale of these properties is based on NPR's continuing evaluation of its strategic plan to re-deploy the proceeds from the disposal of the business segment in a timely manner.

Forward looking statements are made as of March 13, 2012 and are based on information available to management as of that date. Management believes that the expectations reflected in forward-looking statements are based upon information and reasonable assumptions available at the time they are made, however, can give no assurance that the actual results will be consistent with these forward-looking statements. Factors that could cause actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include, but are not limited to, general economic conditions, the availability of new competitive supply of real estate which may become available through construction, NPR's ability to maintain occupancy and the timely lease or re-lease of residential units and commercial space at current market rates, tenant defaults, changes in interest rates, changes in operating costs, governmental regulations and taxation, and the availability of financing. Other risk factors are described in NPR's most recent Annual Information Form available on SEDAR at www.sedar.com. Additional risks and uncertainties not presently known to the entities or that the REIT and NorSerCo currently believe to be less significant may also adversely affect NPR. NPR cautions readers that the list of factors is not exhaustive and that should certain risks or uncertainties materialize, or should underlying estimates or assumptions prove incorrect, actual events, performance and results may vary materially from those expected.

Except as specifically required by applicable Canadian law, NPR assumes no obligation to update or revise publicly any forward-looking statements to reflect new events or circumstances that may arise after March 13, 2012.

OVERVIEW

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to a Declaration of Trust ("DOT") dated January 2, 2002 as amended and restated as of April 11, 2002, May 17, 2002, September 26, 2005, August 4, 2010 December 31, 2010 and June 14, 2011, under the laws of the Province of Alberta. NorSerCo Inc. is a corporation incorporated under the *Business Corporations Act* (Alberta) on October 18, 2010. The REIT Units and the NorSerCo Common Shares are stapled together, resulting in the two entities being under common ownership and trading on the Toronto Stock Exchange ("TSX") under the symbol NPR.UN.

The objectives of NPR are: (a) to provide Unitholders of the Trust with stable and sustainable cash distributions, payable monthly and, to the maximum extent reasonably possible, tax deferred, from investments in a portfolio of mainly residential rental properties located in Canada; and (b) to maximize Unit value through the effective management of NPR's portfolio of properties and the acquisition or disposition of residential and commercial rental properties. The REIT cannot make any investment or take any actions that would result in Voting Units of the Trust not being units of a "mutual fund trust" or a "real estate investment trust" within the meaning of the Tax Act, or that would result in Units being disqualified for investment by registered retirement savings plans, registered retirement income funds, deferred profit-sharing plans or registered education savings plans.

At December 31, 2011, NPR was in compliance with all investment guidelines and operating policies as stipulated in the DOT.

Portfolio Summary (including joint ventures at 100% and discontinued operations) – December 31, 2011

	Multi-family	Execusuites & Hotels	Seniors' (Discontinued Operations)	Total Residential (units)	Commercial (sq ft)
British Columbia	1,692	-	214	1,906	123,164
Alberta	2,097	-	746	2,843	83,243
Saskatchewan	240	-	-	240	-
Northwest Territories	1,305	160	-	1,465	535,711
Nunavut	930	162	-	1,092	190,968
Newfoundland	1,321	142	554	2,017	79,431
Total	**7,585**	**464**	**1,514**	**9,563**	**1,012,517**

NPR is primarily a multi-family residential real estate investment trust, providing a broad spectrum of rental accommodations in Canadian secondary markets with strong economic fundamentals where capitalization rates are somewhat higher and competition somewhat restrained. NPR's residential portfolio is comprised of a multi-family segment: apartments, town homes and single family rental units; and execusuites and hotels, where the rental periods range from a few days to several months. The REIT's residential portfolio tends to be located in areas of Canada that have resource based economies. Geographically, NPR operates in British Columbia, the Northwest Territories, Alberta, Saskatchewan, Nunavut and Newfoundland and Labrador. NPR added 970 multi-family units to its portfolio during the year ended December 31, 2011.

NorSerCo operated the four execusuite properties in Yellowknife, NT, Iqaluit, NU and St. John's, NL owned by the REIT and the 50% joint venture in Inuvik, NWT during 2011. In addition, it assumed operations of the two 120 room full service hotel properties in Iqaluit, NU that were purchased as part of an acquisition which occurred in mid 2011. NPR leases the real property to NorSerCo. NorSerCo operates the rooms business in all properties renting the rooms to guests for both short and long term stays. In the older Iqaluit property, rooms are also rented in part as construction or maintenance staff quarters. Both properties have hotel food and beverage operations that are leased to independent third parties.

NPR's commercial properties are located primarily in regions where NPR has existing regional residential operations offices. Commercial properties consist of single and multi-tenanted warehouse properties, retail mixed use properties and multi-tenanted office properties. During the year ended December 31, 2011, NPR acquired a multi-tenanted office building in Iqaluit, NU; three industrial warehouse properties in St. Johns, NL; and, completed the construction of a warehouse for its own use in Iqaluit, NU. Commercial properties are predominantly leased to federal or territorial governments and other high quality commercial tenants under long term leases.

OVERVIEW (Continued)

Strategic Review of Seniors' Properties

On March 5, 2012 NPR completed the sale of a 74 unit seniors' facility in Newfoundland to its owner-operator. NPR's six senior's properties in western Canada are leased to a single operator, whereas, the nine remaining seniors' properties in Newfoundland are leased to multiple operators. NPR is continuing the strategic review of its master leased seniors' facilities in western Canada and is continuing to explore the potential sale of the Newfoundland seniors' facilities to the current operators. The results from operations for the seniors' business segment have been reported as discontinued operations for 2011 and the comparative figures for the 2010 seniors' business segment have been restated as discontinued operations in the accompanying financial statements.

On July 27, 2011, NPR announced the selection of Brookfield Financial as its advisor in connection with a strategic review of NPR's master leased seniors' facilities in western Canada. The strategic review is considering a broad range of value creation alternatives for these facilities, for the benefit of Northern Property REIT, NorSerCo Inc. and stapled unitholders. However, there can be no assurance as to the conclusions that will be reached through this strategic review process or whether the strategic review will result in any change in the ownership or status of these facilities.

NPR's selection of Brookfield Financial as advisor in connection with a strategic review of its master leased seniors' facilities in western Canada, the Newfoundland seniors' properties sale negotiations to the current operators or any other potential divestiture and re-deployment of proceeds are subject to inherent risks and uncertainties surrounding future expectations and may cause actual results to differ materially from what is currently expected.

NPR is continuing to negotiate the potential sale of its nine remaining seniors' properties in Newfoundland with the current tenants that operate the facilities. The advisor is not involved in the process at the present time but provision has been made to do so at the REIT's option. Management has reached agreement on sale price for most Nfld properties, subject to the operators obtaining suitable financing and meeting certain conditions required by NPR. Management believes that the operators will be able to obtain financing and meet the conditions.

An asset or disposal group is classified as 'held for sale' when it is available for immediate sale in its present condition and the sale is highly probable. NPR analyzes the following criteria when classifying a property as held for sale:

- management is committed to a plan to sell;
- an active program to identify a buyer has been initiated;
- subject to certain conditions, the sale is expected to occur within twelve months;
- the property is being marketed at a reasonable price; and
- actions required to complete the sale indicate that the plan will not be significantly changed or withdrawn.

A discontinued operation is a geographic or distinct business segment that has been disposed of or is classified as held for sale or is a subsidiary that was acquired for resale purposes.

NPR's seniors' properties business segment has been classified as discontinued operations in the accompanying audited combined financial statements based on the above criteria. In this MDA, the analysis of continuing operating results excludes the operating results of the seniors' business segment which is reported as discontinued operations. Income from properties in discontinued operations is also disclosed separately on NPR's Combined Statement of Comprehensive Income. The cash inflows and outflows from properties in discontinued operations are included with other investment properties and deducted in total on the Combined Statement of Cash Flows. The detailed cash flows for discontinued operations are disclosed in the notes to the financial statements. The assets and liabilities of properties in discontinued operations are reported on the combined statement of financial position as "Current assets held for sale" or "Liabilities related to assets held for sale". Prior year comparative results have been restated to conform to the current year's disclosure.

Non-IFRS Financial Measures

Certain terms used in this MD&A such as net operating income ("NOI"), funds from operations ("FFO"), and adjusted funds from operations ("AFFO") are not measures defined under IFRS as prescribed by the IASB. These terms do not have standardized meanings prescribed by IFRS and should not be construed as alternatives to profit or loss, cash flows from operations or other measures of financial performance calculated in accordance with IFRS.

NPR does not consider cash flows from operations as the most direct measure of its performance as it includes changes in non-cash working capital balances such as prepaid property taxes, differences in timing of collections of rents and payments of expenses incurred. Management considers NOI, FFO and AFFO to be key performance indicators of NPR's financial performance. These measures are widely accepted measures of performance for Canadian real estate investment trusts, however are not defined by IFRS. In addition, these measures are subject to the interpretation of definitions by the preparers of financial statements and may not be applied consistently between real estate entities.

OVERVIEW (Continued)

NOI is calculated by deducting direct operating costs from revenues. NOI is a key non-IFRS financial metric that management uses when analyzing the operating results of NPR's operations and is not necessarily comparable to similar measures reported by other real estate entities. NOI growth and same door NOI growth are key performance measures used to manage NPR's portfolio of investment properties. NPR measures NOI by deducting the direct operating costs of maintaining and operating investment properties from the revenue which they generate. Same door NOI is measured as the annual change in NOI from properties that have been owned by the REIT for both the current and previous reporting periods. Revenue is affected by rental rate increases and vacancy. The most significant direct operating costs affecting NOI are utilities, property taxes, insurance, cleaning and repairs and maintenance.

FFO has been developed as a supplemental measure of operating performance for the real estate industry. The Real Property Association of Canada ("REALpac"), after discussions with Canadian real estate publicly accountable entities, developed and published a White Paper on Funds from Operations for IFRS ("White Paper"). The report contains standard adjustments that are made to comprehensive earnings with the desire to adjust it to be a better measure of cash generated or distribution capacity.

NPR calculates FFO as prescribed by the REALpac White Paper as issued in June 2010. FFO measures operating performance by adjusting IFRS net income for unrealized changes in fair value gains or losses, depreciation of income producing property, plant and equipment, gains or losses on disposal of investment property and property, plant and equipment, amortization of tenant cash incentives, amortization of business combination transaction costs, deferred income taxes, distributions to unitholders reported in net income as interest and other non-cash item adjustments that do not provide an accurate portrait of NPR's past or recurring performance. Adjustments for equity accounted for entities and non-controlling interests are calculated to reflect funds from operations on the same basis as the consolidated and combined properties. NPR maintains a conservative FFO payout ratio which is reviewed with the Board of Trustees quarterly.

AFFO is also a significant internal measurement for management's analysis of the REIT's performance. AFFO is measured by adding non-cash employee bonuses, commercial leasing commissions and leasing fees; deducting deferred rental revenue and a normalized sustaining CAPEX; and adjusting for the applicable non-controlling interest amounts to (from) FFO. Sustaining CAPEX expenditures are those that add value to a property by maintaining the productive capacity of the property, are funded out of operations and in turn increase the ability to generate higher returns on NPR's revenue generating properties. Sustaining CAPEX expenditures, as defined on page 43, have seasonal fluctuations with more being spent during the warmer months. Because of the number of variations in calculation of AFFO and the lack of comparability between real estate entities, NPR does not report AFFO.

Per Unit calculations have been adjusted to reflect the impact of stapled REIT Units, Northern Property Limited Partnership Class B units ("Class B") and NPR Limited Partnership Class B units ("NPR Class B") classified as financial liabilities for purposes other than financial statement presentation under IAS 32 "Financial Instruments: Disclosure and Presentation", ("IAS 32"), and therefore not included in the per unit calculations under IFRS. Non-IFRS measures require adjustments to ensure consistency with non-GAAP measures derived from previous GAAP reported amounts. Non-IFRS measures such as FFO, which are derived from comprehensive earnings under IFRS, are impacted by accounting differences between GAAP and IFRS and may make the non-IFRS measures less comparable to other similar entities or may require an increased number of adjustments to achieve comparability in such non-IFRS measures.

OVERVIEW (Continued)

Selected Financial Performance

(Thousands of dollars except per unit amounts)	Three Months Ended December 31		Year Ended December 31	
Total Operations	**2011**	2010	**2011**	2010
Total revenue	**42,576**	36,002	**158,661**	139,750
Net operating income	**26,192**	23,761	**103,076**	91,964
Net and comprehensive earnings (loss)	**33,249**	58,880	**86,157**	(23,948)
Net earnings (loss) per stapled unit, basic *	**$1.13**	$2.15	**$3.01**	($0.93)
FFO from operations	**17,536**	13,597	**67,421**	55,523
FFO per stapled unit, basic *	**$0.59**	$0.50	**$2.35**	$2.16
FFO payout ratio	**64.3%**	76.2%	**65.3%**	70.0%
Distributions declared to stapled unit holders	**11,283**	10,491	**44,051**	38,870
Interest paid to unitholders	**17**	720	**17**	17,180
Distributions paid to stapled unitholders	**11,257**	9,729	**43,533**	21,287
Distributions per stapled unit *	**$0.383**	$0.383	**$1.530**	$1.501

Selected Financial Performance

(Thousands of dollars except per unit amounts)	Three Months Ended December 31		Year Ended December 31	
Continuing Operations	**2011**	2010	**2011**	2010
Total revenue	**37,976**	31,432	**140,246**	121,657
Net operating income	**21,987**	19,196	**85,076**	73,890
Net and comprehensive earnings (loss) from continuing operations	**36,551**	58,849	**88,149**	(34,114)
Net earnings (loss) per stapled unit from continuing operations, basic *	**$1.24**	$2.15	**$3.08**	($1.33)
FFO from continuing operations	**14,780**	10,514	**55,303**	43,463
FFO per stapled unit from continuing operations, basic *	**$0.50**	$0.38	**$1.93**	$1.69
Discontinued Operations				
Total revenue	**4,600**	4,570	**18,415**	18,093
Net operating revenue	**4,205**	4,565	**18,000**	18,074
Net and comprehensive earnings from discontinued operations	**(3,302)**	31	**(1,992)**	10,166
Net earnings per stapled unit from discontinued operations, basic *	**($0.11)**	$0.00	**($0.07)**	$0.40
FFO from discontinued operations	**2,756**	3,083	**12,118**	12,060
FFO per stapled unit from discontinued operations, basic *	**$0.09**	$0.11	**$0.42**	$0.47

* Per unit calculations are based on the weighted average number of Stapled Units, Class B units and NPR Class B units outstanding for the periods ended December 31, 2011 and 2010.

OVERVIEW (Continued)

NPR's FFO and distributable Income ("DI") definitions are interchangeable and provide a general indication of NPR's capacity to make cash distributions to stapled unit holders as required by its DOT. At the May 11, 2010 Annual General Meeting ("AGM"), the unitholders authorized the Trustees to make changes to the DOT as required due to the implementation of IFRS. The Board of Trustees approved the use of the same methodology to calculate FFO and DI at the June 14, 2011 Board meeting.

Additional Financial Metrics

(Thousands of dollars)	Year Ended December 31	
Combined Operations	**2011**	2010
Gross book value at year end	**1,309,077**	1,110,123
Indebtedness at year end	**625,976**	528,517
Debt to gross book value (historical)	**52.8%**	48.6%
Debt to gross book value (fair value)	**47.8%**	47.6%
Interest coverage ratio (times)	**3.35**	3.02
Debt service coverage ratio (times)	**2.06**	1.88
Weighted average mortgage interest rate	**4.71%**	4.80%
Weighted average term to maturity	**5.2 years**	5.4 years
Weighted average capitalization rate	**8.1%**	8.8%

Financial Highlights

NPR's net comprehensive earnings and financial position presented under IFRS are significantly different than when previously presented in accordance with GAAP. The financial results of continuing operations for the fourth quarter and year ended December 31, 2011 are also affected by the seasonality of increased utility usage in the colder winter months.

- Acquisitions and developments of $26.3 million for the quarter and $149.4 million for the year, a full year of revenue from 2010 acquisitions, rent increases and lower vacancy account for the increase in revenue for the fourth quarter and year ended 2011 over the same period of 2010
- Residential vacancy decreased to 3.7% for the fourth quarter of 2011 compared to 4.8% in the third quarter of 2011; down from 4.5% for the same quarter of 2010;
- Operating expenses were higher for the quarter and the year ended December 31, 2011 due to acquisitions, utility usage due to colder seasonal temperatures, and fuel price increases of approximately 20% in the Northwest Territories; annual expenses also increased over the same periods of 2010 due to property tax increases of approximately 6.0% and higher repairs and maintenance costs;
- During the first year of operations, NorSerCo's execusuites and hotels operated at an average occupancy of 67.4% compared to 62.2% for the quarter ended December 31, 2010; contributed $3.5 million and $12.3 million to revenue for the fourth quarter and year ended December 31, 2011 compared to $1.9 million and $8.1 million for the corresponding periods of 2010; and, returned $1.5 million and $6.2 million of NOI in the fourth quarter and year ended December 31, 2011 compared to $0.9 million and $4.2 million for the same periods of 2010;
- Basic FFO from continuing operations were $0.50 per unit for the three months ended December 31, 2011 compared to $0.38 for the three months ended December 31, 2010, an increase of $0.12. Basic FFO per unit from continuing operations for the year ended December 31, 2011 was $1.93 compared to $1.69 for the same period of 2010, an increase of $0.24;
- Declared distributions were $0.383 per stapled unit for the fourth quarter of 2011 and 2010 and $1.530 and $1.501 respectively for the years ended December 31, 2011 and 2010;
- NPR continues to maintain strong financial ratios with a 47.8% debt to gross book value (52.8% on historical cost) at December 31, 2011 compared to 47.6% (48.6% on historical cost) at December 31, 2010. Interest coverage was 3.35 times and debt service coverage was 2.06 times at December 30, 2011 compared to 3.02 times and 1.88 times at December 31, 2010;
- On May 27, 2011, 1,955,000 stapled units were issued at $29.85 per unit for net proceeds of $55.7 million. The offering caused approximately $0.016 of dilution to the second quarter results and was used to fund acquisitions which NPR completed in the first half of 2011; and
- NPR renewed the $50.0 million operating facility bearing interest at prime plus 1.0% or Bankers' Acceptance plus 2.25% with a maturity date of May 17, 2012; on July 28, 2011 NPR renewed the $7.5 million operating facility bearing interest at prime plus 1.0% or Bankers' Acceptance plus 2.25% with a maturity date of July 28, 2012.

OVERVIEW (Continued)

Plan of Arrangement – December 31, 2010

In 2006, the federal Minster of Finance announced a new tax regime for Specified Investment Flow Through ("SIFTs") which became effective January 1, 2011. The new tax regime does not apply to entities that qualify for the REIT Exemption (the "Exemption") defined in the legislation. Under the legislation the REIT appeared not to qualify for the Exemption and, as a result, it undertook an internal reorganization to ensure that the REIT qualified for the Exemption on January 1, 2011. The federal Minister of Finance announced draft changes to the SIFT legislation on December 16, 2010 that relaxed certain definitions in the legislation relating to the Exemption. While these proposed changes are positive, they did not address all of the issues that impacted the REIT's ability to qualify for the Exemption. As such, the internal reorganization as set out in its Plan of Arrangement ("the Arrangement"), which was approved by unitholders at a special meeting held on November 25, 2010, was completed on December 31, 2010. The federal government introduced a budget on June 7, 2011 substantially in the same form as the one introduced in March, but not enacted due to a federal election. With the government now in a majority position, it is reasonable to expect the budget proposals to be enacted in due course. The budget documents also repeat the government's intention to proceed with the REIT rule amendments announced on December 16, 2010. As of December 31, 2011, the government has not enacted the amendments announced on December 16, 2010.

The transactions completed under the Arrangement resulted in the following:

i. The creation of a taxable Alberta corporation, NorSerCo Inc. NorSerCo operates three execusuite properties under a lease arrangement with the REIT, whereby the REIT retained ownership of the real estate assets and leases the properties to NorSerCo under commercial leases at market rates. Following the transaction, NorSerCo holds and operates the business assets which produce non-qualifying revenue as defined under the *Income Tax Act* (Canada) (the "Tax Act"). NorSerCo also holds a 50% interest in the execusuite property in Inuvik, NWT;
ii. The Northern Property Limited Partnership Class B Units were converted to REIT Units;
iii. The Common Shares of NorSerCo were distributed to all REIT unitholders. The REIT Units and NorSerCo Common Shares are listed on the Toronto Stock Exchange ("TSX") and trade together as a stapled unit ("Stapled Unit" or "Unit") under the trading symbol NPR.UN; and
iv. The simplification of NPR's organization structure through the elimination and amalgamation of certain wholly owned subsidiaries.

NorSerCo entered into lease agreements with the REIT to operate three execusuite properties located in Yellowknife, NWT, Iqaluit, NU, and St John's, NL, effective January 1, 2011. Under the terms of the lease, NorSerCo is responsible for all repairs and maintenance of the three buildings and any assets (i.e. furniture and fixtures) required for the operation of the properties. The REIT is responsible for the structural components of the properties.

On the completion of the internal reorganization as outlined in the Arrangement, the REIT met the definition of a Real Estate Investment Trust as defined in the Tax Act.

On July 20, 2011, the Department of Finance press released proposed amendments to the taxation of SIFTs, REITs and publicly traded corporations. The income tax provisions are proposed to be amended to provide that, notwithstanding the general rules applicable to the deductibility of amounts, any amount that is paid or payable by NorSerCo to the REIT will not be deductible in computing NorSerCo's income for income tax purposes. NPR had a one year transition period during which the amounts would not be added back to income, ending on July 21, 2012 , which may be cut short and end on the earliest day after July 20, 2011 on which either a security of the issuer becomes a stapled security of the issuer or a stapled security of the issuer is materially altered. The Press Release did not include detailed draft legislation but, based on the information in it; it appears that the transition period for NPR will end no later than January 17, 2012, the date on which Stapled Units were issued pursuant to rights granted under the LTIP after July 20, 2011. In addition, from time to time NPR issues NPRLP Class B units and NorSerCo Special Shares to vendors in consideration for the acquisition of properties, the most recent of which transactions occurred on October 1, 2011. Pending the release of draft legislation, it is uncertain whether these rules will apply to such transactions. The aggregate additional corporate tax payable by NorSerCo as a consequence of the rules announced in the Press Release is not expected to be material, will not be recurring subject to restructuring and is not permanent.

NPR is continuing to evaluate alternatives to determine the appropriate course of action to deal with these proposed amendments to the taxation rules. Management will continue to update unit holders throughout this process and expects to be in a position to implement its action plan prior to July 21, 2012. Management expects that it will be able to repatriate certain execusuite and hotel operations that were transferred to NorSerCo and still remain under the proposed 10% threshold for non-passive revenue as permitted under the December 16, 2010 draft legislation. The remainder of the execusuite and hotel operations will be transferred to the REIT as its revenue grows sufficiently to absorb the non-passive execusuite and hotel revenue while still remaining within the proposed 10% threshold. NPR intends to wait until the federal government substantively enacts the December 16, 2010 draft legislation before implementing an alternative to resolve the double taxation.

OVERVIEW (Continued)

International Financial Reporting Standards

The following are the key changes from 2010 GAAP reported financial results to IFRS reported financial results:

- Investment property is reported at fair value under IFRS;
- Trust Units are reported as financial liabilities until the May 11, 2010 AGM; Class B units are reported as financial liabilities for the first six months of 2010 and distributions paid to unitholders while the units are classified as financial liabilities are reported as interest;
- Joint ventures which were proportionately consolidated under GAAP are equity consolidated under IFRS;
- Properties under development are included in operations when an occupancy permit is received and start up costs are expensed instead of capitalized during the lease up period as allowed under GAAP; and
- Executive unit based compensation plans are expensed as units vest and are reported at fair value on each reporting date under IFRS.

A more detailed explanation of the key changes from GAAP to IFRS can be found in the section titled "International Accounting Financial Standards" beginning on page 24 of the MD&A for the years ended December 31, 2011 and 2010. NPR continues to monitor the IASB's agenda to identify those standards that will affect its financial reporting and compliance activities.

Board of Trustees of Northern Property REIT and Board of Directors of NorSerCo Inc.

On August 4, 2011, the Board of Trustees of Northern Property REIT and the Board of Directors of NorSerCo Inc. accepted the resignation of Dr. Kabir Jivraj.

On September 14, 2011 the Board of Trustees of Northern Property REIT and the Board of Directors of NorSerCo Inc. accepted the resignation of Mr. John C. Charles.

Business Combinations, Acquisitions and Developments

Where the acquisition contains significant assets, liabilities or activities in addition to property and related mortgage debt, particularly where there is an integrated set of activities and assets, capable of being conducted and managed for the purpose of providing a return, lower costs or other economic benefits, the transaction is accounted for as a business combination. Between April 15 and September 30, 2011, NPR acquired a portfolio of properties in Iqaluit, Nunavut that meet the definition of a business combination. NPR purchased assets as described below:

(Thousands of dollars)	**Unit Count / Sq Ft**	**Assets Acquired**
Multi-family residential investment property	**159**	33,138
Commercial property	**32,000**	13,389
Investment property improvements		3,730
Land held for future development		3,993
Property, plant and equipment	**120**	22,484
Non-competition agreement (intangible asset)		2,521
Assets acquired	**279 / 32,000**	**79,255**
Acquisition was funded as follows:		
Mortgages assumed		22,357
Cash paid		56,898
		79,255

OVERVIEW (Continued)

Acquisitions for the year ended December 31, 2011:

		Unit Count / Sq Ft	Region	Total Acquisition Costs	Mortgage Funding	Cash Paid	Class B LP Units Issued
November 24, 2011	Multi-family	240	Saskatoon	19,818	15,749	4,069	-
November 15, 2011	Multi-family	33	Courtenay	2,413	1,377	1,036	-
October 1, 2011	Multi-family	53	Labrador	4,047	-	2,047	2,000
July 30, 2011	Multi-family	21	Fort St John	1,326	708	618	-
July 15, 2011	Multi-family	63	Nanaimo	7,615	-	7,615	-
July 14, 2011	Multi-family	20	Fort St John	1,287	-	1,287	-
April 15, 2011	Commercial	65,230	St. John's	4,740	2,716	2,024	-
March 31, 2011	Multi-family	151	Nanaimo	11,777	7,500	4,277	-
February 15, 2011	Multi-family	230	Jasper	17,144	11,199	5,945	-
	Other			7	-	7	-
		811 / 65,230		70,174	39,249	28,925	2,000

Developments completed for the year ended December 31, 2011:

		Unit Count / Sq Ft	Region	Total Development Costs	Mortgage Funding	Cash Paid
September 15, 2011	Multi-family	32	Iqaluit	10,689	6,906	3,783
December 31, 2011	Own use warehouse	9,600	Iqaluit	2,760	-	2,760
		32 / 9,600		13,449	6,906	6,543

Development of 32 residential units in Iqaluit, Nunavut was completed and an occupancy permit received in September 2011. NPR incurred costs of $10.7 million constructing the upscale apartment units and financed the construction with its operating line. The upscale apartment was financed during the fourth quarter of 2011 with a ten year $6.9 million mortgage at 3.36%. The project has been well received with 29 of the 32 units leased. A 9,600 square foot industrial warehouse which will be occupied by the Iqaluit regional office and be for storage of construction and maintenance equipment and supplies was completed in the fourth quarter of 2011. NPR's Nunavut regional office relocated to the facility during January 2012.

During negotiations for the Iqaluit business combination acquisition, one of the properties was destroyed by fire. NPR is replacing the 29 units which burned with a 39 unit apartment building and is also constructing an additional 40 units. The two apartment buildings are expected to be completed during the second quarter of 2012 at a forecast cost of $15.9 million financed by $5.3 million of insurance proceeds for the 29 units which burned during the acquisition and $10.6 million from NPR's operating line.

The following section provides a comparison of the financial results for the three months and year ended December 31, 2011 compared to the three months and year ended December 31, 2010. Continuing earnings before other items and income taxes include the results of operations from the residential, execusuites and hotels and commercial business segments. Discontinued operations include the results of operations from the seniors' business segment.

OVERVIEW (Continued)

Earnings from Continuing Operations before Other Items and Income Taxes

(Thousands of dollars)	Three Months Ended December 31		Year Ended December 31	
Continuing Operations	**2011**	2010	**2011**	2010
Rental revenue from continuing operations	**36,929**	30,261	**135,891**	117,735
Other property income	**1,047**	1,171	**4,355**	3,922
	37,976	31,432	**140,246**	121,657
Operating expenses	**(15,989)**	(12,236)	**(55,170)**	(47,767)
Net operating income	**21,987**	19,196	**85,076**	73,890
Mortgage interest	**(5,880)**	(5,016)	**(22,095)**	(20,276)
Depreciation and amortization	**(1,017)**	(637)	**(3,355)**	(2,486)
Earnings from continuing operations before other items and income taxes	**15,090**	13,543	**59,626**	51,128

Earnings from Discontinued Operations before Other Items and Income Taxes

(Thousands of dollars)	Three Months Ended December 31		Year Ended December 31	
Discontinued Operations	**2011**	2010	**2011**	2010
Rental revenue from discontinued operations	**4,600**	4,570	**18,415**	18,093
Operating expenses	**(395)**	(5)	**(415)**	(19)
Net operating income	**4,205**	4,565	**18,000**	18,074
Mortgage interest	**(1,449)**	(1,482)	**(5,882)**	(6,014)
Earnings from discontinued operations before other items and income taxes	**2,756**	3,083	**12,118**	12,060

YEAR-TO-DATE RESULTS AND COMPARISONS

Revenue from Continuing Operations

(Thousands of dollars)	Three Months Ended December 31		Year Ended December 31	
	2011	2010	**2011**	2010
Residential				
Multi-family	**27,818**	24,253	**104,447**	91,653
Execusuites and hotels	**3,536**	1,886	**12,306**	8,068
	31,354	26,139	**116,753**	99,721
Commercial	**6,622**	5,293	**23,493**	21,936
Total	**37,976**	31,432	**140,246**	121,657

Total revenue generated from multi-family income producing properties and execusuites and hotels rental operations was $31.4 million, an increase of $5.3 million or 20.0% compared to $26.1 million of total revenue for the three months ended December 31, 2010. Residential and execusuites and hotels rental revenue for the year ended December 31, 2011 was $116.8 million compared to $99.7 million for the same period of 2010, an increase of $17.1 million or 17.1%. The increase is due to a vacancy loss of 3.7% in the residential portfolio for the fourth quarter of 2011 which decreased from 4.5% for the comparable quarter of 2010 and the financial results of acquisitions completed in 2010 and 2011.

Rental income from commercial investment properties was $6.6 million for the three months ended December 31, 2011 compared to $5.3 million for the same period of 2010. Commercial investment property rental for the year ended December 31, 2011 was $23.5 million compared to $21.9 million for the year ended December 31, 2010, an increase of $1.6 million or 7.1%. Growth in commercial revenue is mainly attributed to the acquisition of three warehouse facilities and an office building during 2011.

YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

Rental revenue to be received from leases with commercial tenants that have rental rates varying over the term of the lease is recorded on a straight line basis over the terms of the associated leases. Rental revenue for the three months ended December 31, 2011 includes straight line rental revenue of $35,000 compared to $31,000 for the same period of 2010 and $135,000 for the year ended December 31, 2011 compared to $124,000 for the corresponding period.

Same Door Residential Rental Revenue

NPR defines same door revenue growth as the annual change in revenue from properties that have been owned by the REIT for both the current and previous reporting periods. For the purposes of this discussion properties that were owned by NPR on or before January 1, 2010 are included in the same door calculation with the exception of the Westmore property in Grande Prairie which was still in the lease up phase for the first three quarters of 2010.

Same door multi-family revenue increased by $529,000 or 2.3% over the same three month period and $4.0 million or 4.5% over the year ended December 31, 2010 due to rent increases and reduced vacancy. Same property execusuites and hotels revenue increased by $128,000 or 6.8% for the three months and $468,000 or 5.8% for the year ended December 31, 2011 over the same periods of 2010 due to increased occupancy and the reconfiguration of the Yellowknife property to add an additional 25 rooms. Commercial same square footage revenue for the three months and year ended December 31, 2011 increased by $858,000 or 16.2% and $716,000 or 3.3% respectively due to tenant occupancies at higher rents and adjustments to operational cost recoveries ("OCRs") for commercial tenants.

Residential Vacancy

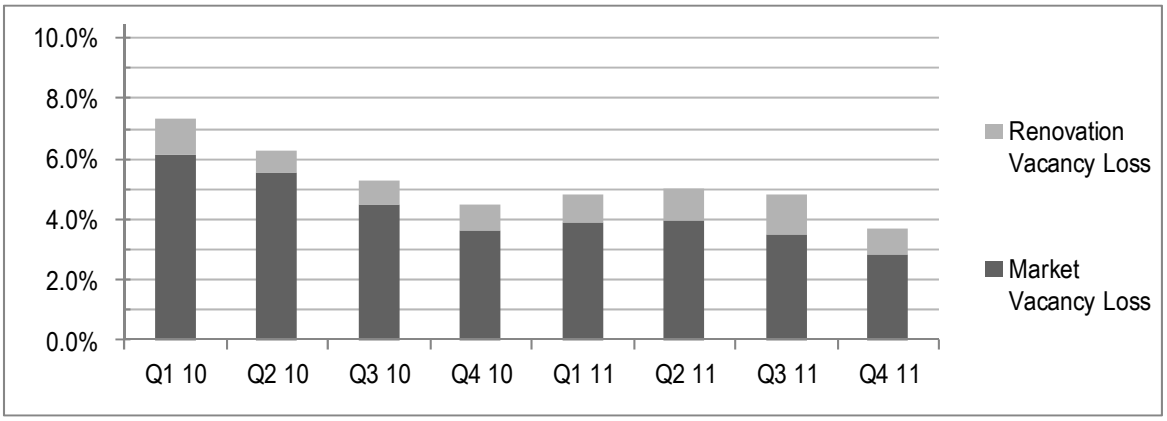
Vacancy loss is calculated by dividing potential rental revenue from vacant residential units by total potential rental revenue for all residential units, excluding properties in lease up phase. The 2010 vacancy loss has not been adjusted to include the Westmore property in Grande Prairie because the property was still in lease up phase for the first three quarters of 2010. Vacancy loss for the fourth quarter of 2011 improved to 3.7% compared to 4.5% for the same quarter of 2010. NPR entered the Labrador City, Newfoundland and Labrador market with the purchase of 53 units at the beginning of the fourth quarter and the Saskatoon, Saskatchewan market with the acquisition of 240 units in the middle of the fourth quarter. Labrador City is operating under 2.0% vacancy and Saskatoon is operating at an 8.8% vacancy.

Residential Vacancy Loss – Year ended December 31

	Market vacancy loss		Renovation vacancy loss		Total	
	2011	2010	**2011**	2010	**2011**	2010
British Columbia	**6.4%**	7.1%	**1.5%**	0.9%	**7.9%**	8.0%
Northwest Territories	**2.0%**	2.1%	**0.7%**	1.0%	**2.7%**	3.1%
Alberta	**6.0%**	10.8%	**2.1%**	1.6%	**8.1%**	12.4%
Saskatchewan	**5.4%**	-	**3.4%**	-	**8.8%**	-
Nunavut	**0.4%**	0.5%	**0.1%**	0.1%	**0.5%**	0.6%
Newfoundland	**1.7%**	1.3%	**0.2%**	0.0%	**1.9%**	1.3%
Overall	**3.5%**	4.9%	**1.1%**	0.9%	**4.6%**	5.8%

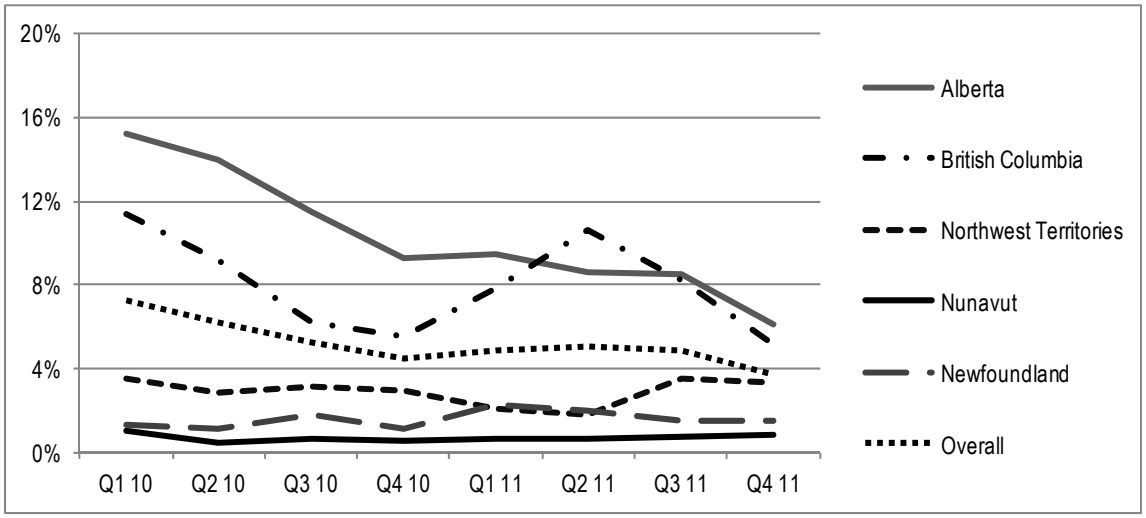
YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

Quarterly Residential Rental Vacancy Loss



The following charts provide additional vacancy information for NPR's geographic regions for the last 8 quarters:

Quarterly Residential Rental Vacancy Loss



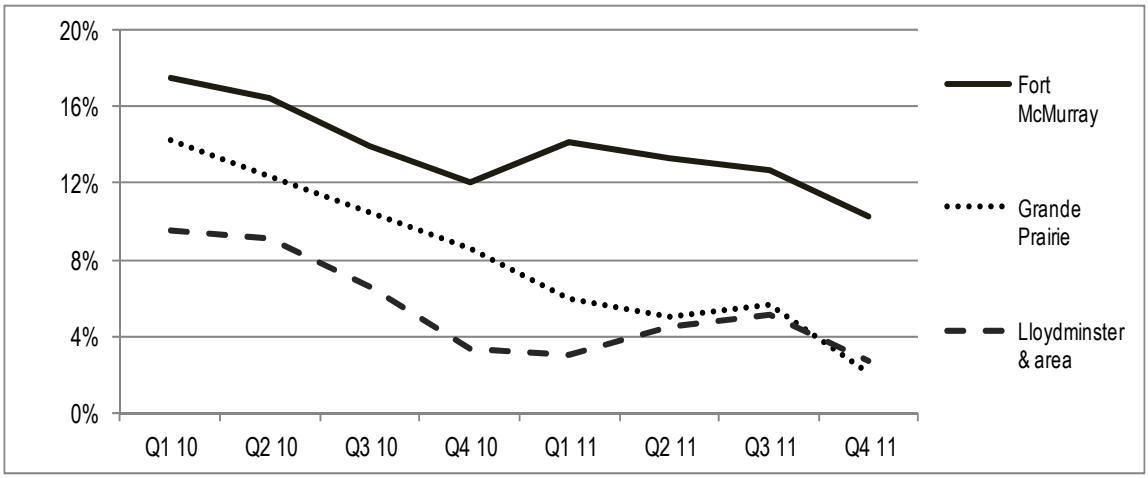
Occupancy in Nunavut remained strong. Nunavut's residential vacancy increased to 0.8% from 0.7% for the fourth quarter as NPR continued to absorb the 159 units acquired and the 32 upscale units constructed in Iqaluit during 2011. Nunavut's vacancy is slightly higher than the 0.6% reported for the fourth quarter of 2010. Leasing negotiations are ongoing with prospective tenants for the 87 units currently under construction.

In the NWT, vacancy remained stable at 3.4% in the fourth quarter of 2011 compared to 3.5% reported for the third quarter of 2011, in part because of the inclusion of a twenty unit building in Yellowknife which was damaged by fire and reported as renovation vacancy from September to mid November 2011. Inuvik vacancy of 6.7% for the fourth quarter of 2011 decreased by 1.5% from 8.2% experienced in the third quarter of 2011. NWT had 2.9% vacancy for the corresponding quarter of 2010.

Newfoundland's residential vacancy of 1.6% increased slightly by 0.1% from the 1.5% reported for the third quarter of 2011 and by 0.5% from the 1.1% reported for the fourth quarter of 2010.

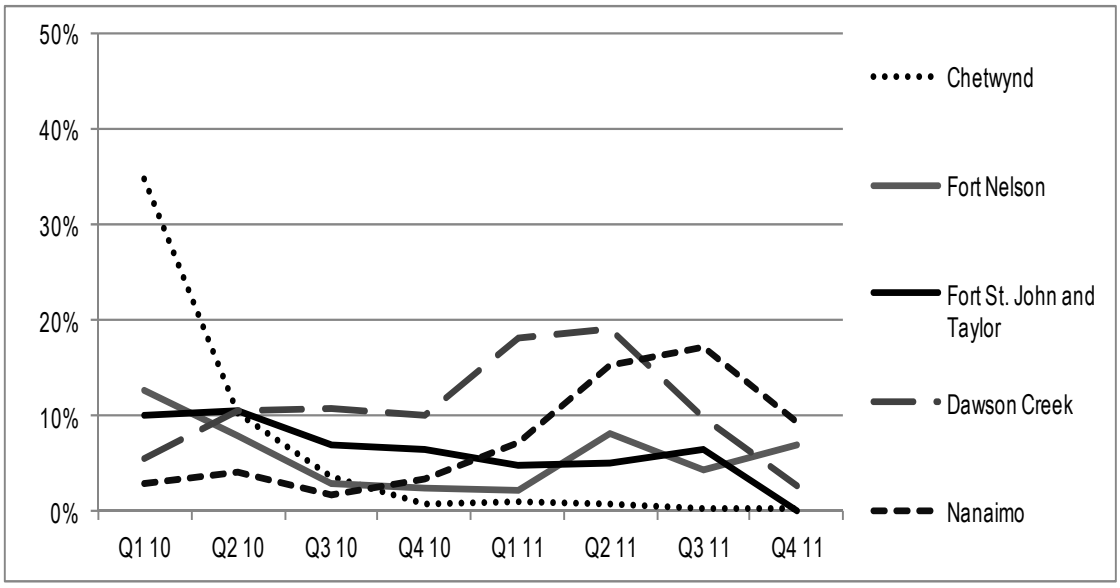
YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

Quarterly Residential Rental Vacancy Loss – Alberta



Residential vacancy loss in Alberta improved during the fourth quarter to 6.1% from 9.3% for the same period of 2010 and by 2.4% from 8.5% in the third quarter of 2011. Occupancy in Fort McMurray continues to make modest gains with vacancy improving to 10.3% during the fourth quarter of 2011 from 12.6% in the third quarter. Vacancy in Grande Prairie decreased to 2.1% in the fourth quarter of 2011 from the 8.5% reported for the fourth quarter of 2010 any by 3.5% from the 5.6% reported for the third quarter of 2011. Grande Prairie rental rates have stabilized and rent increases are the norm. Residential vacancy loss in Lloydminster, which decreased to 2.7% during the fourth quarter of 2011 from the 3.3% reported in the same quarter of 2010 and decreased by 2.4% from the 5.1% reported in the third quarter of 2011, was accompanied by increases in rents. Jasper, Alberta, which NPR acquired during the first quarter of 2011, has not been included in this quarterly analysis. A 2.0% vacancy was experienced in Jasper for the fourth quarter of 2011 compared to 0.5% for the third quarter of 2011.

Quarterly Residential Rental Vacancy Loss – BC



Vacancy loss in north-eastern BC decreased to 4.1% in the fourth quarter compared to 6.2% for the previous quarter of 2011 and by 1.8% from the 5.9% for the fourth quarter of 2010. These rental markets have traditionally operated at higher levels of vacancy as a result of the seasonality in the forestry and natural gas industries.

YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

In Chetwynd, the gas plant refurbishing during 2010, and forestry, coal mining and wind farm development have kept vacancy at low levels through 2011. Chetwynd reported a 0.5% vacancy in the fourth quarter of 2011 compared to 0.4% for the previous quarter of 2011 and 0.8% for the same quarter of the previous year. Fort St. John's 4.7% vacancy in the fourth quarter of 2011 was a 0.9% decrease from 5.6% in the third quarter of 2011, and was 0.6% lower than the same quarter of 2010. Dawson Creek vacancy for the fourth quarter of 2011 decreased to 2.7% compared to 10.0% for the third quarter of 2011 and 10.2% for the same quarter of 2010. Fort Nelson experienced a vacancy increase to 6.9% from the 4.4% for the third quarter of 2011 and an increase from the 2.4% for the same quarter of 2010. Nanaimo continues to absorb the acquisitions completed during the first half of the year. Nanaimo vacancy was 9.4% for the fourth quarter of 2011, down from 17.3% for the third quarter of 2011 and 3.5% for the same period of 2010.

Execusuites and Hotels Rental Revenue

After NPR's internal reorganization on December 31, 2010, the execusuites and hotels business is operated by NorSerCo. Execusuites and hotels rental revenue for the three months and year ended December 31, 2011 was $3.5 million, $1.6 million higher than the $1.9 million for the same quarter of 2010 and $12.3 million compared to $8.1 million, $4.2 million higher for the year ended December 31, 2011. The increase in rental revenue was assisted by the acquisition of two properties in Iqaluit during the year. ICS had an NOI decrease of $44,000 in the fourth quarter of 2011 compared to 2010 and revenue growth of $70,000 over the 2010 annual revenue. NorSerCo owns 50% of the Inuvik Capital Suites Zheh Gwizu' Limited Partnership ("ICS") joint venture execusuite operation located in Inuvik, NWT and has elected to report its share of the operating results using the equity method. NPR reports the change to its net investment on its financial statements and does not include its proportionate share of revenue or expense.

The two full service hotel properties that were acquired as part of the Iqaluit business combination during the second quarter of 2011 contributed $1.5 million to the rental revenue during the quarter and $3.6 million of the execusuites and hotels rental revenue for the year ended December 31, 2011. NorSerCo operates the room rental business only and leases the hotel food and beverage services to independent operators. NorSerCo rebranded the newer 75 room property as the 'Hotel Arctic' during the fourth quarter of 2011.

Commercial Rental Revenue

Commercial rental revenue for the fourth quarter of 2011 was $6.6 million, $1.3 million higher than the $5.3 million for the same period of 2010. Commercial revenue for the year ended December 31, 2011 was $23.5 million, 7.1% higher than the same period of 2010. The increase in revenue relates to changes in commercial vacancy, rental increases obtained through renewals, occupancy cost recoveries ("OCRs"), the second quarter addition of 65,000 square feet in three properties in Newfoundland and the third quarter acquisition of a 32,000 square foot office building in Iqaluit.

Commercial vacancy was 33,000 square feet or 3.3% at December 31, 2011 which is slightly more than the 2.6% vacancy at September 30, 2011. During the three months ended December 30, 2011, 30,000 square feet of the 34,000 square feet which matured, or 3.0% of total commercial square footage was re-leased. Approximately 6,700 of the 9,800 square feet of vacant space located in the Iqaluit office building is leased for a ten year term beginning April 1, 2012. Inuvik Commercial Properties Zheh Gwizu' Limited Partnership ("ICP") commercial vacancy is included in square footage calculations. NPR owns 50% of the ICP joint venture commercial property operations in Inuvik, NWT and has elected to report its share of the operating results using the equity method. NPR reports the change to its investment in ICP on its financial statements using the equity method and does not include its proportionate share of revenues or expenses.

Operating Expenses from Continuing Operations

(Thousands of dollars)	Three Months Ended December 31		Year Ended December 31	
	2011	2010	**2011**	2010
Operating expenses:				
Utilities	**4,843**	3,293	**15,108**	12,474
Property taxes	**2,139**	1,870	**8,013**	7,319
Other expenses	**9,006**	7,073	**32,049**	27,974
	15,988	12,236	**55,170**	47,767

YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

Utilities, expressed as a percentage of rental revenue, were 13.1% for the fourth quarter, up from 10.9% for the same period in 2010. The price of fuel oil has increased approximately 20% from an average of $0.93 per litre in the fourth quarter of 2010 to approximately $1.10 per litre for the same quarter of 2011 in Yellowknife. Natural gas prices have decreased slightly in the Alberta and British Columbia regions. Fuel oil usage in the NWT has also decreased because of the conversion of fuel oil based boiler systems to higher efficiency wood pellet or natural gas based boilers. NPR commissioned an additional four pellet boilers to provide supplementary heat for 344 units in eleven buildings in January, 2012. NPR now has 606 residential units in Yellowknife serviced by wood pellet boilers. The cold seasonal temperatures during the fourth quarter of the year significantly increase the demand for utilities. Property tax increases were received for the British Columbia region and small decreases were received in Alberta. Salaries, maintenance, cleaning and garbage removal costs contributed to the increase in other expenses. The community of Inuvik, NWT has announced that it has approximately 18 to 24 months of natural gas remaining, after which either a new source of natural gas must be tapped or boiler systems must be converted to burn fuel oil. NPR has begun to assess its property's boiler systems in Inuvik to determine the requirements to convert them to fuel oil.

Commercial tenant triple net leases and residential tenant leases that allow operating cost recoveries enable the REIT to recover a significant portion of utility costs experienced.

Net Operating Income from Continuing Operations

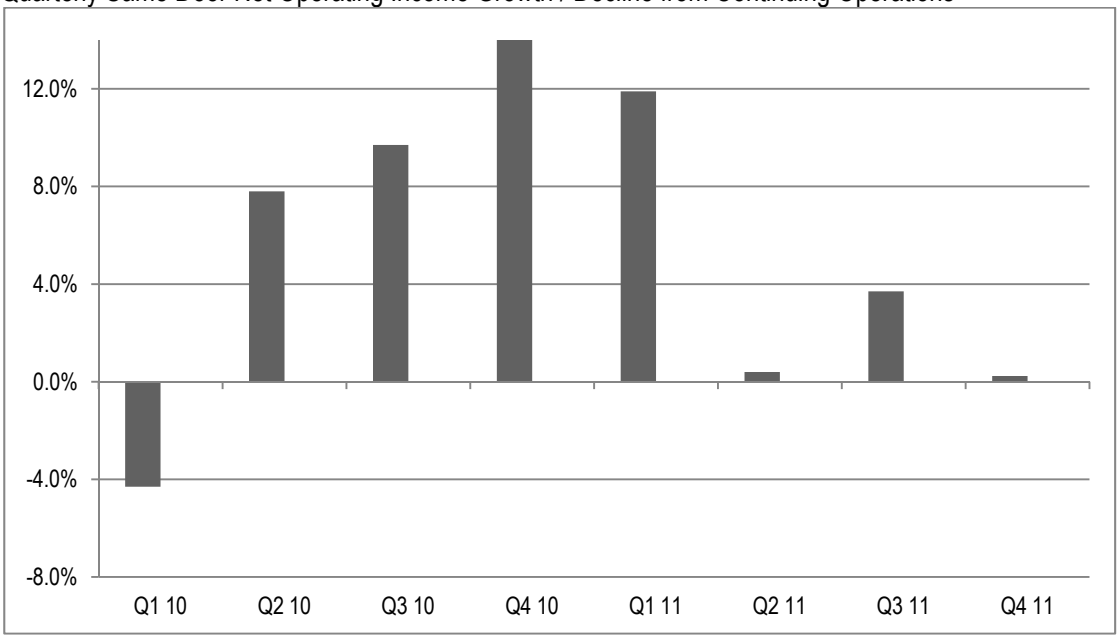
(Thousands of dollars)	Three Months Ended December 31		Year Ended December 31	
	2011	2010	**2011**	2010
Residential:				
Multi-family	**16,695**	15,243	**64,712**	56,318
Execusuites and hotels	**1,518**	898	**6,242**	4,210
	18,213	16,141	**70,954**	60,528
Commercial	**3,774**	3,055	**14,122**	13,362
Total	**21,987**	19,196	**85,076**	73,890

NOI from NPR's residential properties was 83.4% of total NOI for the year ended December 31, 2011 consistent with 81.9% for the same period of 2010. In NPR's commercial properties, the majority of operating costs are either recovered from or paid directly by the tenants. The commercial segment, which accounts for 16.6% of NOI for the year ended December 31, 2011, provides stability to NPR's financial results by reducing NPR's overall exposure to volatile utility prices and severe winter temperatures in Nunavut and the Northwest Territories.

NPR defines same door NOI growth / decline as the annual change in net operating income from properties that have been owned by the REIT for both the current and previous reporting periods. For the purposes of this discussion properties that were owned by NPR on or before January 1, 2010 are included in the calculation.

YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

Quarterly Same Door Net Operating Income Growth / Decline from Continuing Operations



NPR had same door NOI increase of 0.2% for the fourth quarter compared to same door NOI growth of 4.2% for the year ended December 31, 2011. This compares to NOI growth of 14.7% and 6.9% for the same periods of 2010. Factors contributing to the small NOI increase over 2010 include:

- Higher performance pay;
- Severance pay;
- Repairs to and lost revenue from a 20 unit fire damaged building; and
- One time revenue items recorded during the fourth quarter of 2010.

Interest on Mortgages from Continuing Operations

Interest on mortgages for the fourth quarter of 2011 was $5.9 million, $0.9 higher than the $5.0 million for the same period of 2010. Interest on mortgages for the year ended December 31, 2011 was $22.1 million compared to $20.3 million for the year ended December 31, 2010. Lower interest costs generated by the decrease in the weighted average interest rate from 4.64% at December 31, 2010 to 4.57% at December 31, 2011 was offset by an increase in outstanding mortgage balances related to acquisitions and financings completed during the last 12 months.

Depreciation and Amortization from Continuing Operations

Depreciation under IFRS is limited to property plant and equipment because investment properties are valued at fair value and are not depreciated. Property, plant and equipment are comprised of execusuites and hotels, administrative buildings and equipment, and staff housing. The building assets have been componentized and the components depreciated over their estimated useful lives. The 9,600 square foot warehouse in Iqaluit being used for administrative offices and maintenance supplies and equipment storage will be reported as PP&E, componentised and depreciated. Depreciation for the quarter ended December 31, 2011 was $1.0 million compared to $637,000 for the fourth quarter of 2010. Depreciation for the year ended December 31, 2011 was $3.1 million compared to $2.5 million for the same period of 2010. A significant portion of the increase in depreciation for 2011 is due to the $22.5 million acquisition of two hotel properties in Iqaluit during the year. The depreciation on income producing PP&E is added back for the calculation of FFO.

During the second and third quarters of 2011, NPR acquired a portfolio of properties that was recorded as a business acquisition. The acquisition included a $2.5 million non-compete agreement which is classified as an intangible asset and is amortized over the five year term of the agreement. Computer software is also classified as an intangible asset and is amortized over three years. Amortisation of $126,000 on intangible assets was recorded for the quarter ended December 31, 2011 compared to nil for the same period of 2010. Amortization of intangible assets for the year ended December 31, 2011 was $252,000 compared to nil for the same period of 2010.

YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

Net Earnings from Continuing Operations

(Thousands of dollars except per unit amounts)	Three Months Ended December 31		Year Ended December 31	
	2011	2010	**2011**	2010
Earnings from continuing operations before the undernoted	**15,090**	13,543	**59,626**	51,128
Administration	**(1,326)**	(3,276)	**(7,379)**	(9,510)
Interest on operating facilities	**(166)**	(157)	**(622)**	(1,163)
Interest and other income	**69**	136	**363**	280
Interest paid to unitholders	**(26)**	(720)	**(26)**	(14,324)
Gain on sale of investment property	**-**	25	**-**	25
Equity in earnings (loss) of joint ventures	**(106)**	(40)	**462**	241
Business combination transaction costs	**(162)**	-	**(825)**	-
Unrealized fair value changes	**23,395**	(8,675)	**36,994**	(117,929)
Earnings (loss) from continuing operations before income taxes	**36,768**	836	**88,593**	(91,252)
Current (expense)	**(200)**	(104)	**(427)**	(343)
Deferred (expense) recovery	**(17)**	58,117	**(17)**	57,481
Net and comprehensive income (loss) from continuing operations	**36,551**	58,849	**88,149**	(34,114)
Net and comprehensive income (loss) attributable to:				
Stapled unit holders	**36,433**	58,683	**87,888**	(34,447)
Non-controlling interest	**24**	166	**261**	333
Net and comprehensive income (loss) from continuing operations	**36,551**	58,849	**88,149**	(34,114)
Net earnings (loss) per stapled unit				
Basic:	**$1.24**	$2.15	**$3.08**	($1.33)
Diluted:	**$1.23**	$2.14	**$3.06**	($1.32)
Weighted average number of units outstanding – basic (000's)	**29,498**	27,424	**28,664**	25,745
Weighted average number of units outstanding – diluted (000's)	**29,630**	27,533	**28,805**	25,819

Administration

Administration costs for the fourth quarter of 2011 were $1.3 million compared to $3.3 million for the same period of 2010. Administration costs for the year ended December 31, 2011 were $7.4 million compared to $9.5 million for the same period of 2010. Higher Trustee fees and unitholder reporting costs were offset by lower computer maintenance cost, SIFT re-organization, and fair value appraisal costs. Senior executive performance pay in the form of LTIP is lower for the quarter because it is expensed over the vesting term instead of over the year it is earned under IFRS. Non-cash unit based compensation expense relating to unit options was $21,000 for the year ended December 31, 2011 compared to $329,000 for the same period of 2010. The unit options fully vested during the first quarter of 2011. NPR has begun the process of upgrading its property management software and expects to be completed during the first quarter of 2012.

Interest on Operating Facilities

Interest on the operating facilities for the fourth quarter of 2011 was $166,000 compared to $157,000 for the same period of 2010. Interest on the operating facilities for the year ended December 31, 2011 was $622,000 compared to $1.2 million for the same period of 2010. Interest on the operating facilities was lower than the previous year due to decreases in the borrowing rate and lower average balances. Approximately $21.0 million was drawn on the operating facilities at the end of 2011.

During the year, NPR renewed the $50.0 million operating facility bearing interest at prime plus 1.0% or Bankers' Acceptance plus 2.25% with a maturity date of May 17, 2012 and the $7.5 million operating facility bearing interest at prime plus 1.0% or Bankers' Acceptance plus 2.25% with a maturity date of July 28, 2012.

YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

Interest Paid to Unitholders

REIT Trust units were classified as debt until May 11, 2010 and NP Limited Partnership Class B units are classified as debt for the entire year ended December 31, 2010. As a result of the amendments to the DOT approved at the May 11, 2010 AGM, the Trustees have discretion to determine the amounts of distributions to the unitholders. After that date, the Trust Units are classified as equity and distributions on the trust units are reported in equity; distributions to Class B unitholders continued to be reported as interest. The Class B units were converted into stapled units as per the Arrangement on December 31, 2011. NPR Limited Partnership issued 67,796 NPR Class B units and NorSerCo issued 67,796 special shares during the fourth quarter as partial compensation for the purchase of two properties in Labrador City, Newfoundland and Labrador. The NPR Class B units are classified as debt on the Statement of Financial Position, revalued to fair value at each reporting period and distributions paid on the NPR Class B units are classified as interest. Distributions classified as interest under IFRS totaled $26,000 (2010 - $720,000) for the quarter and $26,000 (2010 - $14.3 million) for the year ended December 31, 2011 are added back in the calculation of FFO..

Equity in Associates

ICS and ICP are reported in NPR's financial reports using equity accounting. NPR's 50% share of the joint ventures' earnings for the fourth quarter of 2011 was a loss of $106,000 compared to $40,000 for the same quarter of 2010. NPR's share of earnings was $462,000 for the year ended December, 2011 compared to $241,000 for the corresponding period.

Business Combinations

NPR completed a $79.3 million acquisition in Iqaluit including construction materials and equipment, a five year non-compete agreement and a significant amount of development property in addition to 159 residential units, two hotels with 120 rooms, a 32,000 square foot commercial building and related mortgage debt. Because there is an integrated set of activities and assets, capable of being conducted and managed for the purpose of providing a return, lower costs or other economic benefits, the transaction is accounted for as a business combination. Legal, appraisal, environmental assessment and other acquisition costs of $162,000 for the quarter and $825,000 for the year ended December 31, 2011 related to the Iqaluit purchase have been expensed.

During negotiations a fire destroyed a 29 unit residential building which was part of the Iqaluit portfolio being acquired. NPR has undertaken to construct a larger 39 suite apartment building on the same site. The vendor is liable for any shortfall of insurance proceeds for the replacement of 29 units. As part of the transaction, NPR received $5.3 million of insurance proceeds from the vendor for the reconstruction of the burned building during the year.

Fair Value Adjustments

The fair value of NPR's investment property is the amount that the property should exchange at between a willing buyer and a willing seller in an arm's length transaction.

A combined external appraisal and internal calculation approach is used to fair value NPR's investment properties. NPR externally appraises a sample of apartment, single family, duplex, townhome, commercial and mixed use facility investment properties on a rotating basis throughout the portfolio. Three independent appraisal companies with experience in NPR's regions of operations are commissioned to fair value NPR's investment property throughout any given year. Management reviews the external investment property appraisals and then applies that regional vacancy, management overhead and capitalization rate ("Cap rate") obtained to the stabilized net operating income for the remainder of NPR's investment properties on a regional basis to internally calculate fair values. This method is also applied to investment properties held in NPR's joint ventures and subsidiaries.

Management monitors certain trigger events; a change in market conditions such as added competition through new supply; a permanent increase or decrease in market vacancy or rental rates; recent transactions at Cap rates different than the ones experienced; independent appraisals; or, a material change in a property's NOI that would indicate a change in a property's fair value. The business acquisition in Iqaluit was deemed a trigger event which lowered residential and mixed use property Cap rates by 1.0%. Commercial property appraisals were also obtained for financing and re-financing purposes and an unrealized gain on NPR's downtown commercial property in Yellowknife.

YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

The weighted average Cap rate at December 31, 2011 was 8.1% compared to 8.3% for the third quarter of 2011. Cap rate compression in northern Alberta and improvements in economic conditions in areas of northeastern BC necessitated a review of fair values in those regions during the fourth quarter. Long term lease arrangements with the Nunavut Housing Corporation necessitated a fair value review of certain northern properties. As a result of management's assessment of trigger events, the fair value of NPR's investment property was increased by $23.4 million during the fourth quarter and $37.0 million for the year ended December 31, 2011.

Unrealized fair value gains of $23.4 million for the three months ended December 31, 2011 are derived from the fair valuation loss of $1.3 million due to unit based compensation, a gain of $24.7 million on investment property and $15,000 loss on the fair valuation of NPR Class B units. The $8.7 million fair value losses for the corresponding quarter of 2010 are the result of the $7.9 million valuation of trust units and unit based compensation which were reported as financial liabilities and fair value losses to investment property of $0.8 million. Unrealized fair value gains totalled $37.0 million consisting of fair value losses of $438,000 on unit based compensation, a $15,000 loss on NPR Class B units and a gain of $37.4 million on investment property for the year ended December 31, 2011, compared to losses of $117.9 million consisting of fair value losses of $86.9 million on the valuation of trust units and unit based compensation, and $31.0 million on investment property for the same period of 2010. NPR's stapled units are classified as equity subsequent to the May 11, 2010 AGM. The Class B units continue to be classified as debt for the remainder of 2010, after which the Class B units were converted to stapled units. During the fourth quarter of 2011, NPR Class B units were issued as partial funding for the purchase of properties in Labrador City. These units are classified as liabilities and the distributions thereon are classified as interest. Distributions for the fourth quarter of and year ended December 31, 2011 in the amount of $26,000 have been classified as interest and are added back for FFO calculation purposes.

Income Taxes

Current income taxes are estimated at $200,000 for the fourth quarter and $427,000 for the year ended December 31, 2011 based on the income earned in NorSerCo. Current income taxes of $104,000 for the comparable quarter of 2010 and $343,000 for the year ended December 31, 2010 were due to taxable subsidiaries which were amalgamated as part of the re-organization completed on December 31, 2010. As a result of the Arrangement undertaken on December 31, 2010, current taxes in 2011 are limited to earnings of NorSerCo Inc.

Notwithstanding the foregoing, in accordance with certain Tax Proposals relating to stapled securities announced by the Minister of Finance (Canada) on July 20, 2011, NorSerCo will not be entitled to deduct otherwise deductible expenses paid or payable by it to the Partnership, including the rent that is payable under the Master Lease. When enacted, these rules will apply to NorSerCo as of January 17, 2012 when Stapled Units were issued pursuant to rights granted after July 20, 2011 under the LTIP, and may have begun to apply earlier. In addition, from time to time NPR issues NPRLP Class B units and NorSerCo Special Shares to vendors in consideration for the acquisition of properties, the most recent of which transactions occurred on October 1, 2011. Pending the release of draft legislation, it is uncertain whether these rules will apply to such transactions. The aggregate additional corporate tax payable by NorSerCo as a consequence of the rules announced in the Press Release is not expected to be material, will not be recurring, and will not affect NPR's cash distributions.

Deferred taxes are recognized on temporary differences between the carrying values of assets and liabilities in the combined financial statements and the corresponding tax carrying values for the same assets. Deferred tax liabilities are recognized when the temporary differences are taxable. Deferred tax assets are recognized when deductible timing differences, unused tax credits or unused tax losses can reasonably be expected to be utilized. Deferred tax assets are reviewed each reporting date to determine the probability that they will be utilized. NorSerCo recorded a $460,000 deferred tax asset at transition to IFRS due to the temporary differences between the accounting and tax value of certain assets in ICS. Deferred income taxes for the fourth quarter of 2011 were $17,000 compared to a recovery of $58.1 million for the same period of 2010. A recovery of $57.5 million in deferred income taxes was reported in NPR for the year ended December 31, 2010. Following the completion of the internal reorganization the REIT is not subject to entity level taxation effective December 31, 2010.

Net and Comprehensive Earnings from Continuing Operations

Net and comprehensive earnings from continuing operations for the quarter were $36.6 million compared to $58.8 million for the fourth quarter of 2010. Net and comprehensive earnings from continuing operations for the year ended December 31, 2011 were $88.1 million compared to a loss of $34.1 million for the same period of 2010. Net earnings are the combined net earnings for the REIT and NorSerCo.

YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

Discontinued Operations

The assets and liabilities of properties in discontinued operations are reported on the combined statement of financial position as "Current assets held for sale" or "Liabilities related to assets held for sale". The business segment has been reclassified to discontinued operations and the comparative results for 2010 have been restated to conform to this classification.

The results of operations for the seniors' properties for 2011 and 2010 have been restated as discontinued operations on the accompanying financial statements and in this discussion.

Net and Comprehensive Earnings from Discontinued Operations

(Thousands of dollars)	Three Months Ended December 31		Year Ended December 31	
Discontinued Operations	**2011**	2010	**2011**	2010
Rental revenue from discontinued operations	**4,600**	4,570	**18,415**	18,093
Operating expenses	**(395)**	(5)	**(415)**	(19)
Net operating income	**4,205**	4,565	**18,000**	18,074
Mortgage interest	**(1,449)**	(1,482)	**(5,882)**	(6,014)
Earnings from discontinued operations before other items and income taxes	**2,756**	3,083	**12,118**	12,060
Unrealized fair value changes	**(6,058)**	(3,052)	**(14,110)**	(1,894)
Earnings (loss) from discontinued operations before income taxes	**(3,302)**	31	**(1,992)**	10,166
Current (expense)	**-**	-	**-**	-
Deferred recovery	**-**	-	**-**	-
Net and comprehensive income (loss) from discontinued operations	**(3,302)**	31	**(1,992)**	10,166
Net and comprehensive income (loss) attributable to:				
Stapled unit holders	**(3,302)**	31	**(1,992)**	10,166
Net and comprehensive income (loss) from discontinued operations	**(3,302)**	31	**(1,992)**	10,166
Net earnings (loss) per stapled unit				
Basic:	**($0.11)**	$0.00	**($0.07)**	$0.40
Diluted:	**($0.11)**	$0.00	**($0.07)**	$0.40
Weighted average number of units outstanding – basic (000's)	**29,498**	27,424	**28,664**	25,745
Weighted average number of units outstanding – diluted (000's)	**29,630**	27,533	**28,805**	25,819

Rental revenue for the three months ended December 31, 2011 was $4.6 million, 0.7% higher than the $4.6 million for the same period of 2010. Rental revenue for the year ended December 31, 2011 was $18.4 million or 1.8% higher than the $18.1 million for the same period of 2010 as a result of scheduled rent increases.

Net operating income from discontinued operations for the three months ended December 31, 2011 was $4.2 million, 7.9% lower than the $4.6 million for the same period of 2010. Net operating income from discontinued operations for the year ended December 31, 2011 was $18.0 million 0.4% lower than the $18.1 million for the same period of 2010.

Interest on mortgages for the fourth quarter of 2011 was $1.4 million, $0.1 lower than the $1.5 million for the same period of 2010. Interest on mortgages for the year ended December 31, 2011 was $5.9 million compared to $6.0 million for the year ended December 31, 2010. Lower interest costs are due to the decrease in the outstanding mortgage balances related to the seniors properties because of principal payments made. The properties included in the seniors' business segment are financed by $95.1 million of mortgage debt at an average rate of 5.46%.

YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

Unrealized fair value gains for the three months ending December 31, 2011 are derived from the estimated selling price of the seniors' properties less estimated costs to sell. Sales prices have negotiated with the operators of most of the Newfoundland seniors' properties. The fair value for the western Canadian seniors' properties is based upon the price at which the properties are being marketed. There can be no assurance as to the conclusions that will be reached through this strategic review process or whether the strategic review will result in any change in the ownership or status of these facilities.

Deferred income taxes for the fourth quarter of 2011 were nil compared to nil for the same period of 2010. Following the completion of the internal reorganization the REIT is not subject to entity level taxation effective December 31, 2010.

On March 5, 2012 NPR completed the sale of a 74 unit seniors' facility in Newfoundland to its owner-operator for gross proceeds of $6.8 million.

Funds From Operations

The adoption of IFRS has had a material impact on the presentation of financial results for the Entities. NPR measures its performance using industry accepted non-IFRS performance metrics such as FFO which has been calculated in accordance with REALPac's White Paper. FFO as presented may not be comparable to similar measures presented by other Canadian real estate investment trusts.

The following table provides a reconciliation of FFO to cash flows from operating activities as required by CSA staff notice 52-306 (Revised) Non-IFRS Financial Measures:

(Thousands of dollars except per unit amounts)	Three Months Ended December 31		Year Ended December 31	
	2011	2010	**2011**	2010
Cash flow from combined operating activities	**21,220**	13,855	**67,910**	41,821
Adjustments:				
Net change in non-cash working capital	**(3,879)**	(353)	**(122)**	(3,984)
Non-controlling interests	**(24)**	(166)	**(261)**	(333)
Depreciation of property, plant and equipment	**(235)**	(148)	**(664)**	(534)
Deferred rental revenue	**223**	323	**1,054**	1,223
Amortization of tenant cash inducements	**16**	5	**50**	1,296
Amortization of deferred recoverable costs	**54**	(39)	**(183)**	291
Amortization of business combination non-compete	**126**	-	**252**	-
(Loss) income from joint ventures	**(200)**	(40)	**462**	241
Unit based compensation	**107**	(161)	**(862)**	(1,226)
Interest expense	**(7,495)**	(6,655)	**(28,599)**	(27,453)
Interest paid	**7,170**	6,286	**27,327**	25,962
Distributions paid to unitholders	**17**	722	**256**	17,180
Business combination transaction costs	**162**	-	**825**	-
Current income tax expense	**(200)**	(104)	**(427)**	(343)
Income taxes paid	**-**	39	**34**	353
Fair value adjustments for non-controlling interest and equity investments	**474**	33	**369**	939
FFO from combined operations	**17,536**	13,597	**67,421**	55,523
Distribution to stapled unit holders per unit	**$0.38**	$0.38	**$1.53**	$1.50
FFO per unit - basic	**$0.59**	$0.50	**$2.35**	$2.16
FFO per unit - diluted	**$0.59**	$0.49	**$2.34**	$2.15
FFO Payout ratio	**64.3%**	77.2%	**65.3%**	70.0%

YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

FFO for the fourth quarter of 2011 was $17.5 million or $0.59 per unit compared to $13.6 million or $0.50 per unit for the same period of 2010. FFO for the year ended December 31, 2011 was $67.4 million or $2.35 per unit compared to $55.5 million or $2.16 per unit for the same period of 2010.

Management believes that the reconciliation of FFO to net earnings also provides meaningful information and has included this reconciliation below:

(Thousands of dollars except per unit amounts)	Three Months Ended December 31		Year Ended December 31	
	2011	2010	**2011**	2010
Net and comprehensive earnings from combined operations	**33,249**	58,880	**86,157**	(23,948)
Adjustments:				
Non-controlling interests	**(24)**	(166)	**(261)**	(333)
Property, plant and equipment depreciation	**782**	489	**2,691**	1,952
Amortization of business combination non compete	**126**	-	**252**	-
Deferred income tax expense (recovery)	**17**	(58,117)	**17**	(57,481)
Amortization of tenant inducements	**57**	56	**225**	272
Gain on sale of equipment		(25)		(25)
Unrealized fair value (gains) losses	**(17,333)**	11,727	**(22,880)**	119,823
Business combination transaction costs	**162**	-	**825**	-
Distributions recorded as interest	**26**	720	**26**	14,324
Adjustments for non-controlling interest and investment in joint venture	**474**	33	**369**	939
FFO	**17,536**	13,597	**67,421**	55,523
Distribution to stapled unit holders per unit	**$0.38**	$0.38	**$1.53**	$1.50
FFO per unit - basic	**$0.59**	$0.50	**$2.35**	$2.16
FFO per unit - diluted	**$0.59**	$0.49	**$2.34**	$2.15
FFO Payout ratio	**64.3%**	77.2%	**65.3%**	70.0%

FFO measures operating performance by adjusting IFRS net income for unrealized changes in fair value gains or losses, depreciation of PP&E, deferred income taxes, gains or losses on the disposal of investment property and property, plant and equipment, reporting distributions to unitholders in net income as interest and other non-cash item adjustments that do not provide an accurate portrait of NPR's past or recurring performance. Adjustments for equity accounted for entities and non-controlling interests are calculated to reflect funds from operations on the same basis as the consolidated and combined properties. FFO is not intended to be used as a measure of the cash generated by the operations or NPR's distribution paying capacity. The intention is to provide users with a reasonable starting point with which to calculate distribution paying capacity.

On May 27, 2011, NPR completed an equity offering of 1,955,000 stapled units at $29.85 per unit for net proceeds of $55.7 million. The offering was approximately $0.016 dilutive to the quarterly results and was used to fund several acquisitions which NPR completed in the first quarter of 2011, including 151 residential units in Nanaimo and 230 residential units in Jasper as well as the Iqaluit acquisition which was completed by September 30, 2011.

NPR, as it continues its construction and development activities, will continue to expend capital on assets which will be non productive during the construction phase and may be non productive during the lease-up phase, until the property obtains the budgeted occupancy. The 79 units currently under construction in Iqaluit are being financed from insurance proceeds and the operating line of credit.

Distributable Income

DI as defined in the REIT's DOT may not be comparable to similar measures presented by other Canadian real estate investment trusts. Distributable income has become less important as a financial measure among REIT entities, however is still a requirement of NPR's DOT. At the June 14, 2011 Board meeting, the Board of Trustees approved that DI be calculated using the same methodology as FFO, therefore only FFO has been presented.

YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

Cash retained by NPR represents the difference between DI or FFO and distributions made to stapled unit holders. Cash retained is used to fund capital improvements and sustaining CAPEX, leasing costs and tenant improvements in the commercial portfolio, capital acquisitions and regularly scheduled principal repayments on mortgages payable. Capital improvements and sustaining CAPEX are incurred by NPR to maintain the productive capacity of its properties or their potential to maximize returns. NPR's goal is to maintain the productive capacity of its real estate assets to maintain stapled unit holder distributions at sustainable levels.

Distributions to Stapled Unit Holders

In August, 2010, the REIT's Board of Trustees approved an increase in annual distributions from $1.48 to $1.53 per unit. The decision to increase distributions was based on the REIT's lower vacancy, improved economic conditions and strong financial performance. All distributions paid by NPR during 2011 have been made by the REIT.

NorSerCo's Board of Directors has not declared any dividends. The decision to declare dividends will be made after there is a reliable pattern of earnings and cash flows.

SUMMARY OF ANNUAL AND QUARTERLY RESULTS

Results for 2010 are in accordance with IFRS and GAAP; results for 2009 and 2008 are in accordance with GAAP. IFRS requires comparative financial statements for the prior year to be restated. Canadian securities commissions require additional comparative data and permit the presentation of both GAAP and IFRS information.

Three Year Summary of Annual Financial Results

	Years Ended December 31			
(Thousands of dollars except per unit amounts)	**2011 (IFRS)**	2010 (IFRS)	2010 (GAAP) (1)	2009 (GAAP) (1)
Total revenue from continuing operations	**140,246**	121,657	142,147	134,232
Net earnings from continuing operations	**88,149**	(34,114)	67,556	21,316
Net earnings from continuing operations per unit, diluted	**$3.060**	($1.321)	$2.617	$0.847
Net earnings from discontinued operations	**($1,992)**	$10,166	-	-
Net earnings from discontinued operations per unit, diluted	**($0.069)**	$0.395	-	-
Total assets	**1,333,073**	1,131,016	918,728	888,367
Mortgages payable	**589,789**	504,583	512,544	498,996
Distributions declared per unit	**$1.530**	$1.501	$1.501	$1.480

(1) Includes discontinued operations in continuing operations

SUMMARY OF ANNUAL AND QUARTERLY RESULTS (continued)

Quarterly Summary of Financial Results from Continuing Operations

The table below summarizes NPR's financial results from continuing operations for the last eight fiscal quarters. NPR's quarterly financial results have a seasonal component to them resulting from higher utility costs in the first and fourth quarters of each year.

(Thousands of dollars)	2010				**2011**			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	**Q4**
Rental revenue	27,924	29,169	30,381	30,261	31,124	32,307	35,531	**36,929**
Other property income	934	860	957	1,171	993	1,176	1,139	**1,047**
	28,858	30,029	31,338	31,432	32,117	33,483	36,670	**37,976**
Operating expenses	(12,850)	(11,171)	(11,510)	(12,236)	(13,543)	(12,569)	(13,069)	**(15,989)**
	16,008	18,858	19,828	19,196	18,574	20,914	23,601	**21,987**
Mortgage interest	(5,029)	(5,115)	(5,116)	(5,016)	(5,137)	(5,433)	(5,645)	**(5,880)**
Depreciation and amortization	(608)	(593)	(648)	(637)	(615)	(706)	(1,017)	**(1,017)**
Earnings before the undernoted	10,371	13,150	14,064	13,543	12,822	14,775	16,939	**15,090**
Administration	(1,625)	(2,227)	(2,382)	(3,276)	(1,918)	(1,935)	(2,200)	**(1,326)**
Interest on operating facilities	(270)	(334)	(402)	(157)	(127)	(173)	(156)	**(166)**
Interest and other income	38	51	55	136	91	108	95	**69**
Interest paid to unitholders	(9,301)	(3,583)	(720)	(720)	-	-	-	**(26)**
Gain on sale of investment properties	-	-	-	25	-	-	-	**-**
Equity in earnings (loss) of joint ventures	(389)	365	305	(40)	200	206	162	**(106)**
Business combination transaction costs	-	-	-	-	-	(246)	(417)	**(162)**
Unrealized fair value changes	(64,729)	(32,514)	(12,011)	(8,675)	(2,585)	19,199	(3,015)	**23,395**
Earnings before income taxes	(65,905)	(25,092)	(1,091)	836	8,483	31,934	11,408	**36,768**
Current	(86)	(66)	(87)	(104)	-	(40)	(187)	**(200)**
Deferred recovery (expense)	(547)	308	(397)	58,117	-	-	-	**(17)**
Net earnings (loss) from continuing operations	(66,538)	(24,850)	(1,575)	58,849	8,483	31,894	11,221	**36,551**
Other comprehensive earnings	-	-	-	-	-	-	-	**-**
Comprehensive earnings (loss) from continuing operations	(66,538)	(24,850)	(1,575)	58,849	8,483	31,894	11,221	**36,551**

NPR's financial results improved through 2009 and 2010 as a result of acquisitions completed in 2008 and 2009, strong performance of the existing portfolio and lower weighted average interest costs. Financial results for 2011 continue to improve as a result of acquisitions, same door organic growth and continuing low weighted average interest costs and vacancy.

The financial results of 2011 and 2010 include unrealized fair value changes for i) NPR's Trust units until the May 11, 2010 AGM, ii) Class B units, iii) unit based payments which are classified as financial liabilities and iv) investment property. NPR's trust units were classified as financial liabilities until the AGM when the unitholders approved required amendments to the DOT enabling the Trust units to be disclosed as equity and therefore distributions to be included in equity. During the periods when Trust units and Class B units are reported as liabilities, the distributions are reported as interest paid to unitholders. During the fourth quarter of 2011, NPR Class B units were issued as partial payment for an acquisition in Labrador City, NL. These units are classified as liabilities and the distributions associated with these units are reported as interest.

NPR's investments in joint ventures which were proportionately consolidated under GAAP are equity consolidated under IFRS.

During 2010, NPR incurred higher than normal levels of administration as a result of the SIFT reorganization, IFRS transition costs and executive performance pay.

SUMMARY OF ANNUAL AND QUARTERLY RESULTS (continued)

Deferred income tax which was recorded during 2010 was reversed in the fourth quarter of 2010 because Northern Property met the REIT requirements as a result of the internal reorganization completed on December 31, 2010.

Distributions were increased in the third quarter of 2010 because of the REITs continued strong financial performance.

Quarterly Summary of Financial Results

The table below summarizes NPR's financial results from continuing operations for the last eight fiscal quarters.

(Thousands of dollars except per unit amounts)	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	**Q4**
Net earnings per unit:								
Basic	($2.65)	($0.99)	($0.06)	$2.15	$0.31	$1.13	$0.38	**$1.24**
Diluted	($2.64)	($0.99)	($0.06)	$2.14	$0.31	$1.12	$0.38	**$1.23**
Distribution to stapled unit holders	9,301	9,309	9,769	10,491	10,509	11,008	11,251	**11,283**
Distribution per stapled unit	$0.370	$0.370	$0.378	$0.383	$0.383	$0.383	$0.383	**$0.383**
FFO	9,150	11,553	12,246	10,514	11,604	10,480	15,391	**14,780**
FFO per unit – basic	$0.36	$0.46	$0.49	$0.38	$0.42	$0.37	$0.52	**$0.50**
FFO per unit – diluted	$0.36	$0.46	$0.48	$0.38	$0.42	$0.37	$0.52	**$0.50**
FFO payout ratio	101.7%	80.6%	79.8%	99.8%	90.6%	105.0%	73.1%	**76.3%**
Closing trading price	$24.20	$23.18	$25.63	$28.92	$30.50	$30.57	$27.22	**$29.72**

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Explanation of transition to International Financial Reporting Standards

The January 1, 2010 Opening Combined Condensed Statement of Financial Position of NPR, prepared under GAAP, has been restated under IFRS. The IFRS Framework deals with: (a) the objective of financial reports; (b) the qualitative characteristics that determine the usefulness of information in financial reports; (c) the definition, recognition and measurement of the elements from which financial statements are constructed; and (d) concepts of capital and capital maintenance. Financial reports are directed toward the common information needs of a wide range of users; investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies, and the public. NPR has the primary responsibility for the preparation and presentation of the combined financial statements. The objective of these combined financial statements is to provide information about the financial position, financial performance and cash flows of NPR that is useful to a wide range of users in making economic decisions. These combined financial statements do not provide all the information that users may need to make economic decisions since they portray the financial effects of past events and do not necessarily provide non-financial information.

IFRS are premised on a conceptual framework similar to GAAP, although significant differences exist in certain matters of recognition, measurement and disclosure. The adoption of IFRS has a material impact on NPR's combined statement of financial position. In particular, NPR's opening IFRS statement of financial position reflects the revaluation of substantially all of NPR's commercial and residential properties and developments to fair value and, as a result, certain amortization expense and intangible assets and liabilities are no longer separately recognized. NPR has also adopted the equity method of accounting for Inuvik Capital Suites Zheh Gwizu' Limited Partnership ("ICS") and Inuvik Commercial Properties Zheh Gwizu' Limited Partnership ("ICP") which were 50% proportionately consolidated under GAAP. The Icicle/Ninety North Ltd. ("Icicle") joint venture in which NPR is a 49% venture partner was proportionately consolidated under GAAP. Management determined that the joint venture is effectively controlled by NPR and has consolidated the financial results into this combined statement of financial position reporting a 51% non controlling interest. The operations of the Aqsaqniq/Ninety North Ltd. ("Aqsaqniq") partnership are also consolidated into these financial statements. It had been reported using the equity method of accounting under GAAP. GoGa Cho Building Limited Partnership which is 55% owned by NPR was previously consolidated with a 45% minority interest reported is similarly consolidated under IFRS. IFRS 2 Share-based payment, ("IFRS 2") required the restatement of the liability NPR's option plan and Long Term Incentive Plan ("LTIP"). Finally, NPR was required to reclassify $368.7 million of NPR Trust and Class B Limited Partnership units from equity to long term financial liabilities due to the application of IAS 32. The impact of these differences on the January 1, 2010 opening balance sheet under IFRS compared to our December 31, 2009 balance sheet under GAAP resulted in unitholders' equity decreasing from $291 million to a deficit of $51 million or an approximate decrease of $13.63 per unit.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The conversion to IFRS from GAAP impacts the presentation of NPR's financial results and the accompanying disclosures. NPR evaluated the impact of the conversion on financial reporting systems, processes and controls and has noted that the most significant change to its internal and disclosure environment is the requirement to measure and report NPR's portfolio of investment properties at fair value. This change has required NPR to design and implement new processes and internal controls surrounding the determination of fair values which include, but are not limited to, management's consideration of recent and comparable transactions, discount rates, estimates of future rental rates and leasing activities, and future capital expenditures, as well as, where appropriate, engaging external specialists to assist with the evaluation of fair value. Significant accounting policies for NPR are in accordance with IFRS and are described in Note 3 to the Audited Combined Financial Statements as at and for the year ended December 31, 2011.

IFRS 1: First-Time Adoption of IFRS

The adoption of IFRS required the application of IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and permits limited optional exemptions. The following are the optional exemptions available under IFRS 1 which Management applied in preparation of NPR's opening IFRS balance sheet as at January 1, 2010. The following discussion has been prepared using the standards and interpretations currently issued and are effective at the end of NPR's first annual IFRS reporting period, which was December 31, 2011.

Effective January 1, 2011, NPR has adopted IFRS, restating comparative figures for the prior year beginning January 1, 2010 to comply with IFRS. The opening combined statement of financial position as at January 1, 2010 has been prepared in accordance with IFRS 1 applying certain optional and mandatory exemptions from full retrospective application of IFRS. NPR had prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") prior to the adoption of IFRS. NPR prepared its opening statement of financial position by applying IFRS standards in existence at December 31, 2011 as the year ended December 31, 2011 combined financial statements are the Entities first annual financial statements that comply with IFRS.

The Entities elected to apply the following optional exemptions from full retrospective application of IFRS when preparing these financial statements in accordance with IFRS 1:

i) Business combinations

NPR applied the business combinations exemption in IFRS 1 which allowed the Entities to not apply IFRS 3 retrospectively to business combinations that occurred prior to the Transition Date. NPR has not restated business combinations that occurred prior to January 1, 2010.

ii) Financial instruments

An entity is required to identify, recognize, classify and measure all financial assets and liabilities which qualify for recognition in accordance with IFRS at the date of transition. IFRS allows an entity to record any required adjustments in the opening balance of retained earnings. NPR elected to apply this exemption to its LTIP and Option unit-based compensation plans and to its Limited Partnership Class B units. Under IFRS these are considered financial liabilities whereas under Canadian GAAP they were considered equity. As per the reconciliations below, the adjustments to record these financial liabilities were recorded as an adjustment to opening retained earnings.

iii) Leases

NPR reviewed all lease arrangements and concluded they were operating leases at transition to IFRS which was consistent with their treatment under Canadian GAAP.

iv) Fair value as deemed cost

A first time adopter may elect to value PP&E using a) fair value at the date of transition; b) a revaluation under previous Canadian GAP that is broadly comparable to fair value or cost or depreciated costs under IFRSs, adjusted to reflect, changes in general or specific price index; or c) a previous GAAP event-driven fair value measurement. NPR obtained external fair value appraisals for its execusuites and hotels properties and elected to use those fair values at transition to IFRS in its opening balance sheet. The execusuites and hotels assets were categorized into major components that are being depreciated over their estimated useful lives. NPR elected to value investment property using fair value as deemed cost on transition to IFRS.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The Entities applied the following mandatory exemption from full retrospective application of IFRS when preparing these financial statements in accordance with IFRS 1:

(i) Estimates

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by NPR under Canadian GAAP are consistent with their application under IFRS.

(ii) Hedge accounting

Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. NPR had no transactions that qualified for hedge accounting.

This reconciliation of the Canadian GAAP combined statement of financial position at January 1, 2010 and December 31, 2009, together with the statement of retained earnings for NPR is shown on the following page, including separate explanations of the effects of applying IFRS.

NORTHERN PROPERTY REAL ESTATE INVESTMENT TRUST
Combined Statement of Financial Position (audited)

(thousands of dollars)	Notes	December 31, 2009 GAAP Balance	IFRS Adjustment	January 1, 2010 IFRS Balance
ASSETS				
Non-current assets				
Investment properties	a)	863,720	(27,415)	836,305
Property plant & equipment	a)	-	44,166	44,166
Other long term assets	b)	4,539	(3,571)	968
Investment in joint ventures	c)	-	4,674	4,674
Loans receivable	d)	2,456	(2,085)	371
		870,715	15,769	886,484
Current assets				
Term deposits and short term investments		3,555	-	3,555
Accounts receivable	f)	4,158	(280)	3,878
Prepaid expenses and other assets	g)	5,088	(2,665)	2,423
Intangible assets	h)	4,851	(4,851)	-
Discontinued operations		-	207,958	207,958
		17,652	200,162	217,814
		888,367	215,931	1,104,298
LIABILITIES				
Non-current liabilities				
Trust and Limited Partnership Class B units	i)	-	549,821	549,821
Mortgages	j)	498,996	(153,762)	345,234
Deferred taxes	k)	43,751	13,290	57,041
		542,747	409,349	952,096
Current liabilities				
Bank indebtedness	l)	1,820	(107)	1,713
Operating facilities		33,698	-	33,698
Trade and other payables	m)	15,403	(1,421)	13,982
Distributions payable		3,096	-	3,096
Current portion of mortgages payable	j)	-	46,298	46,298
Unit based payments	i)	-	1,498	1,498
Forward utility contract		152	-	152
Intangible liabilities	h)	94	(94)	-
Discontinued operations		-	101,059	101,059
		54,263	147,233	201,496
		597,010	556,582	1,153,592
EQUITY				
Equity attributable to unitholders	n)	290,893	(342,060)	(51,167)
Non-controlling interest	n)	464	1,409	1,873
TOTAL EQUITY		291,357	(340,651)	(49,294)
		888,367	215,931	1,104,298

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

This reconciliation of the Canadian GAAP combined statement of financial position at December 31, 2010, together with the statement of retained earnings for NPR is shown on the following page, including separate explanations of the effects of applying IFRS.

NORTHERN PROPERTY REAL ESTATE INVESTMENT TRUST
Combined Statement of Financial Position (audited)

(thousands of dollars)	Notes	December 31, 2010 GAAP Balance	IFRS Adjustment	December 31, 2010 IFRS Balance
ASSETS				
Non-current assets				
Investment properties	a)	893,347	(35,835)	857,512
Property plant & equipment	a)	-	43,754	43,754
Other long term assets	b)	6,058	(3,659)	2,399
Investment in joint ventures	c)	-	4,615	4,615
Loans receivable	d)	279	-	279
Deferred tax		-	440	440
		899,684	9,315	908,999
Current assets				
Cash	e)	3,216	(295)	2,921
Term deposits and short term investments		4,087	-	4,087
Accounts receivable	f)	2,916	(32)	2,884
Prepaid expenses and other assets	g)	5,154	(2,781)	2,373
Intangible assets	h)	3,671	(3,671)	-
Discontinued operations		-	209,752	209,752
		19,044	202,973	222,017
		918,728	212,288	1,131,016
LIABILITIES				
Non-current liabilities				
Trust and Limited Partnership Class B units	i)	-	-	-
Mortgages payable	j)	512,544	(152,980)	359,564
Deferred taxes	k)	253	(253)	-
		512,797	(153,233)	359,564
Current liabilities				
Operating facilities		7,898	-	7,898
Trade and other payables	m)	18,355	(360)	17,995
Distributions payable		3,499	-	3,499
Current portion of mortgages payable	j)	-	47,419	47,419
Unit based payments	i)	-	4,334	4,334
Forward utility contract		55	-	55
Intangible liabilities	h)	43	(43)	-
Discontinued operations		-	98,206	98,206
		29,850	149,556	179,406
		542,647	(3,677)	538,970
EQUITY				
Equity attributable to stapled unit holders	n)	375,699	214,327	590,026
Non-controlling interest	n)	382	1,638	2,020
TOTAL EQUITY		376,081	215,965	592,046
		918,728	212,288	1,131,016

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Impact of IFRS on Financial Position

The following paragraphs quantify and describe the impact of significant differences between Canadian GAAP and IFRS on NPR's combined balance sheet:

a) Investment property and property, plant and equipment

Management considers multi-unit residential, seniors' and commercial revenue producing properties to be investment properties under IAS 40, "Investment Property" ("IAS 40"). IAS 40 defines investment property as property that includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or for sale in the ordinary course of business. Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. However, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for its investment property. The fair value of NPR's investment property is the amount that the property should exchange at between a willing buyer and a willing seller in an arm's length transaction. Management elected to use the fair value model and implemented a combined external appraisal and internal calculation approach to fair value NPR's investment properties. Approximately 30% of properties in each of NPR's regions of operation were selected for independent external appraisal. The properties selected were comprised of apartment, single family, duplex, town home, commercial, seniors' and mixed use facilities. The services of three independent appraisal companies were commissioned during the fourth quarter of 2009, each with expertise in certain regions in which NPR operates, to perform external property appraisals. Management reviewed the external investment property appraisals for reasonableness and then applied externally obtained regional vacancy, management overhead and Cap rate information to the stabilized net operating income for the remainder of NPR's investment properties on a regional basis to internally calculate fair values. This change in accounting policy has also been applied to investment properties held in NPR's joint ventures and subsidiaries. The adjustments from historical cost to fair value at transition to IFRS are recorded in retained earnings. Subsequent fair value gains and losses are recorded in net income in the period in which they arise.

Management has determined that the fair value of NPR's investment property portfolio at January 1, 2010 is approximately $1.1 billion (December 31, 2009 - $864 million) $207 million greater than the carrying value under Canadian GAAP. The adjustment to retained earnings under the fair value model represents the cumulative unrealized gain in respect of NPR's investment property, net of the de-recognition of related intangible assets and liabilities which are inherently reflected in the fair value of commercial property, and the reclassification of straight-line rent receivable.

NPR reports investment property at fair value each reporting period. The resulting changes in fair value of investment property are recorded in the statements of income. IAS 40 does not allow depreciation to be calculated and reported in the statements of income for any revenue producing properties classified as investment property. Management has determined that the fair value of NPR's investment property portfolio at December 31, 2010 is approximately $1.1 billion compared to the GAAP value of $893 million which is an increase of $201 million.

Investment properties	December 31, 2010	January 1, 2010
Fair value adjustment (1)	228,830	235,119
Reclassification to property, plant and equipment (2)	(43,754)	(44,166)
Investment in joint ventures (3)	(13,114)	(12,797)
Non-controlling interest (4)	(1,287)	(1,287)
Reclassification to tenant inducements (5)	(2,057)	(603)
Reclassification to other long term assets (6)	(253)	(128)
Discontinued operations (7)	(204,200)	(203,553)
	(35,835)	(27,415)

1. Fair value adjustment – Revenue producing properties that were reported at historical cost under GAAP are reported at fair value under IFRS. The net increase in reported value is $228.8 million (January 1, 2010 - $235.1 million).
2. Reclassification to property, plant and equipment – NPR has regional offices and warehouse facilities in each of its operating regions. Management also classified the execusuites and hotels business segment as PP&E. These assets were included in the building costs under IFRS. NPR also provides residential housing to staff. The fair value of these assets reclassified to property, plant and equipment at transition to IFRS was $43.8 million (January 1, 2010 - $44.2 million).

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

3. Investment in joint ventures – The operations of ICP and ICS were proportionately consolidated under Canadian GAAP. IFRS 11 Joint Arrangements ("IFRS 11") was released May 12, 2011, becomes effective January 1, 2013 and requires the use of the equity method of accounting for interests in joint venture entities, thereby eliminating the proportionate consolidation method. In anticipation of IFRS 11, NPR has reported its investment in joint ventures using the equity method of accounting, as permitted in IAS 31. The value of NPR's investment properties as reported under Canadian GAAP has decreased by $13.1 million (January 1, 2010 - $12.8 million) at transition to IFRS for the change in accounting method used for ICP and ICS.
4. NPR owns and operates certain investment properties using partnership and joint venture arrangements. GoGa Cho is 55% owned by NPR and has been consolidated reporting a 45% non-controlling interest; Aqsaqniq is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest; and Icicle, which was proportionately consolidated under GAAP, is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest in this opening balance sheet.
5. Reclassification to tenant inducements - Where IAS 40 applies and investment properties are measured at fair value, the tenant inducements are considered in the cash inflows modeled to measure the fair value of the investment property, forming part of the in-place operating leases. In accordance with IAS 40.50(c), lease incentive assets are separated for presentation on the balance sheet by deducting this amount from the fair value of the property to avoid double counting of assets. NPR has reclassified $2.1 million (January 1, 2010 - $603,000) of tenant inducements to avoid double counting of assets.
6. Reclassification to other long term assets - deferred recoverable costs – These costs have been reclassified under IAS 40 and IAS 17. Deferred recoverable costs are those costs incurred for capital maintenance performed on commercial buildings and regarded by NPR as recoverable costs from commercial tenants. These costs are amortized to operating income and are included in the calculation of annual recoverable operating costs.
7. Discontinued operations – The seniors' business segment has been reclassified as discontinued operations.

NPR reports investment property at fair value and restated its comparable 2010 investment property using a combined external appraisal and internal valuation approach. The resulting changes in fair value of investment property were recorded in the deficit at transition to IFRS. As a result of electing to report investment property at fair value, depreciation is no longer calculated and reported in the statement of income for any revenue producing properties classified as investment property. The weighted average Cap rate at December 31, 2010 was 8.8% (January 1, 2010 - 8.8%).

Property, plant and equipment (PP&E)

NPR provides rental accommodations to its employees and occupies administrative office and warehouse space in the regions in which it operates. NPR also operates execusuites and hotels that meet the criteria of income properties because of the length of stays for the majority of their customers. IAS 40.9(c) defines these types of capital assets as owner-occupied property and requires that these assets be reported under IAS 16 "Property, Plant and Equipment" ("IAS 16"). IAS 16 defines PP&E as tangible assets used in the production or supply of goods and services or for administrative purposes, and have an expected life of more than one period. Owner-occupied property and staff housing in the amount of $13.0 million has been reclassified from investment property to PP&E in accordance with IAS 16 on transition to IFRS. Execusuites and hotels in the amount of $31.3 million have been reclassified from investment property to PP&E in accordance with IAS 16 on transition to IFRS.

NPR has also measured staff housing, owner-occupied property and execusuites and hotels at fair value as at the transition date and used that amount as the deemed cost in the opening IFRS balance sheet. Management has identified the significant asset components of PP&E and their appropriate useful lives for the purpose of depreciating PP&E as required by IAS 16. These assets are subject to a review for impairment annually. NPR will continue to report PP&E using the cost model, measuring each class at cost less accumulated depreciation and any impairment losses recognized. Vehicles, computer and other equipment are reported at the Canadian GAAP amortized cost value at January 1, 2010 as this is an approximation to fair value.

NPR experiences monthly changes in staff rental accommodations due to move-ins, move-outs and transfers between residential units. The estimated cost that would be incurred to implement the internal processes required to track and value these transfers between Investment Property and PP&E significantly exceed the benefits provided to users of these financial statements. Since staffing levels and internally used space do not change materially on a monthly basis, management decided to allocate employee accommodations and administrative and warehouse space to PP&E at transition to IFRS and not to revise these allocations unless a significant change in the number of units or square footage occupied occurs.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Property, plant and equipment	December 31, 2010	January 1, 2010
Reclassification from investment properties(1)	48,580	46,582
Asset impairment (2)	(148)	(148)
Investment in joint ventures (3)	(21)	(21)
	48,411	46,413
Accumulated Depreciation		
Accumulated Depreciation	(4,657)	(2,247)
	43,754	44,166

1) PP&E for owner-occupied property includes land, buildings and furniture, fixtures and equipment reclassified from investment property at transition to IFRS in the amount of $48.8 million (January 1, 2010 - $46.6 million). During 2010 NPR acquired additional property, plant and equipment in the amount of $949,000. Management has determined that the portion of the fair value adjustment of investment property that applies to furniture, fixtures and equipment for owner-occupied property was considered to be immaterial in its application at the property level.
2) Asset impairment - IAS 36.9 requires that an asset be assessed for impairment at the end of each reporting period. Certain assets purchased as part of a previous business acquisition were tested for impairment. It was determined that the carrying value of the equipment exceeded the recoverable amount.
3) Investment in joint ventures – The operations of ICP and ICS were proportionately consolidated under Canadian GAAP. IAS 31 – Interests in Joint Ventures ('IAS 31") allows proportionate consolidation of jointly controlled entities. In anticipation of IFRS 11, NPR has reported its investment in joint ventures using the equity method of accounting, as permitted in IAS 31. The value of NPR's property, plant and equipment as reported under Canadian GAAP has decreased by $21,000 (January 1, 2010 - $21,000) for the change in accounting method used for ICP & ICS.

b) Other long term assets

Paragraph 52 of IAS 17 "Leases" ("IAS 17") states that, "Indirect costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized as an expense over the term on the same basis as the lease income". For Canadian GAAP a separate intangible asset was presented on the balance sheet, whereas for IFRS, the deferred leasing costs form a component of the total fair value of the investment property and are not accounted for separately.

NPR's commercial leases on commercial property can have three types of deferred leasing costs:

1) Tenant inducements - Where IAS 40 applies and investment properties are measured at fair value, the tenant inducements are considered in the cash inflows modeled to measure the fair value of the investment property, forming part of the in-place operating leases. In accordance with IAS 40.50(c), lease incentive assets are separated for presentation on the balance sheet by deducting this amount from the fair value of the property to avoid double counting of assets;

2) Tenant improvements - Tenant improvements which benefit the tenant are treated as an incentive and netted against revenue in accordance with SIC-15 "Operating Lease – Incentives". Where the tenant improvements are deemed the assets of the lessor, then IAS 40 applies and the investment property is measured at fair value and the tenant improvements form part of the fair value of the property, and;

3) Deferred recoverable costs – These costs have been reclassified under IAS 40 and IAS 17. Deferred recoverable costs are those costs incurred for capital maintenance performed on commercial buildings and regarded by NPR as recoverable costs from commercial tenants. These costs are amortized to operating income and are included in the calculation of annual recoverable operating costs.

Other long term assets	December 31, 2010	January 1, 2010
Deferred rent receivable (1)	(11)	(2)
Deferred recoverable costs (2)	253	129
Tenant inducements (3)	2,052	669
Discontinued operations	(5,408)	(4,302)
	(3,114)	(3,506)
Accumulated amortization		
Accumulated amortization	(545)	(65)
	(3,659)	(3,571)

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

1. Deferred rent receivable – ICS and ICP were proportionately consolidated under Canadian GAAP and are equity consolidated as permitted in IAS 31. This change amounted to a decrease of $11,000 as at December 31, 2010.
2. Deferred recoverable costs – These costs have been reclassified under IAS 40 and IAS 17. Deferred recoverable costs are those costs incurred for capital maintenance performed on commercial buildings and regarded by NPR as recoverable costs from commercial tenants. These costs are amortized to operating income and are included in the calculation of annual recoverable operating costs.
3. Tenant inducements – Where IAS 40 applies and investment properties are measured at fair value these amounts are considered in the cash inflows modeled to measure the fair value of the investment property forming part of the in-place operating leases. NPR has reclassified $2.1 million at December 31, 2010 (January 1, 2010 - $603,000) of tenant inducements to avoid double counting of assets.

c) Investment in joint ventures

IFRS 1 states that a first-time adopter may elect not to apply IFRS 3, "Business Combinations" ("IFRS 3") retrospectively to business combinations that occurred before the date of transition to IFRS. Both IFRS and Canadian GAAP require the use of the acquisition method of accounting for all business combinations, however there are differences between the two frameworks. Under IFRS transaction costs are expensed immediately while under Canadian GAAP the costs are included in the cost of the assets acquired. This may have a material negative impact on net income, FFO, AFFO and EBITDA in the year of acquisition. IFRS requires the purchaser to measure any non-controlling interest in the acquiree at either fair value or at the non-controlling interest's proportionate share of the fair value of the acquirees' identifiable net assets. Canadian GAAP required the minority interest to be measured at the non-controlling interest's proportionate share of the historical carrying value of the acquirees' identifiable net assets.

Management has elected not to apply IFRS 3 retrospectively to business combinations that occurred prior to the date of transition to IFRS. NPR's jointly controlled entities and subsidiaries have also transitioned to IFRS as of January 1, 2010.

IAS 31 allows proportionate consolidation of jointly controlled entities. On May 12, 2011 the IASB issued IFRS 11, which requires jointly controlled entities to be reported using the equity method of accounting. In anticipation of IFRS 11, NPR has elected to use the equity method to account for its investment in joint ventures as permitted by IAS 31.

NPR owns and operates certain investment properties using partnership and joint venture arrangements. GoGa Cho is 55% owned by NPR and has been consolidated reporting a 45% non-controlling interest; Aqsaqniq is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest; and Icicle is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest in this opening balance sheet.

NPR has applied IAS 27. IAS 27.13 to IAS 27.17 defines control, identifying when a subsidiary should be consolidated. Control is deemed to exist if more than half of the voting power of an entity is owned directly or indirectly. Control also exists when less than half of the voting rights are owned when there is:

a) Power over more than half of the voting rights by virtue of an agreement with other investors;
b) Power to govern the financial and operating policies of the entity under an agreement;
c) Power to appoint the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
d) Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Management has concluded that NPR controls the GoGa Cho and effectively controls the Aqsaqniq and Icicle subsidiaries and has consolidated their operations reporting the appropriate non-controlling interest.

Investment in joint ventures	December 31, 2010	January 1, 2010
ICS (1)	574	372
ICP (1)	4,041	4,302
	4,615	4,674

1. Interest in joint ventures – The operations of ICP and ICS were proportionately consolidated under Canadian GAAP. NPR has reported its jointly controlled entities using the equity method of accounting as permitted in IAS 31. The value of NPR's equity accounted investments in joint ventures as reported under Canadian GAAP has increased by $4.6 million (January 1, 2010 - $4.7 million) at transition to IFRS for the change in accounting method used for ICP & ICS.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

d) Loans Receivable

Loans receivable	December 31, 2010	January 1, 2010
Interest in joint ventures (1)	-	(20)
Renovations (2)	-	(2,065)
	-	(2,085)

1. Interest in joint ventures – The operations of ICP and ICS were proportionately consolidated under Canadian GAAP. NPR will report its jointly controlled entities using the equity method of accounting. The value of NPR's loans receivable as reported under Canadian GAAP has decreased by $20,000 at transition to IFRS for the change in accounting used for ICP and ICS.
2. NPR completed renovations to one of its senior's facilities on behalf of the operator and recorded a receivable for the value of the renovation. IAS 40 requires tenant improvements to form part of the fair value of investment property.

e) Cash

Cash	December 31, 2010	January 1, 2010
Investment in joint ventures – ICP and ICS (1)	(409)	-
Aqsaqniq and Icicle (2)	114	-
	(295)	-

1. The amount of NPR's cash as reported under Canadian GAAP has decreased by $409,000 (January 1, 2010 - nil) at transition to IFRS for the change in accounting method used for ICP and ICS. The operations of ICP and ICS were proportionately consolidated under Canadian GAAP. NPR will report these jointly controlled entities using the equity method of accounting.
2. Under IAS 27 the business partnership with Aqsaqniq and Icicle is regarded as investments in subsidiaries. Both companies are 49% owned by NPR and have been consolidated reporting a 51% non-controlling interest.

f) Accounts Receivable

Accounts receivable	December 31, 2010	January 1, 2010
Investment in joint ventures (1)	(150)	(103)
Aqsaqniq/Ninety North Ltd. (2)	277	(77)
Reclassification on internal reorganization of subsidiaries	(52)	(100)
Discontinued operations	(107)	-
	(32)	(280)

1. The value of NPR's accounts receivable as reported under Canadian GAAP has decreased by $150,000 (January 1, 2010 - $103,000)at transition to IFRS for the change in accounting method used for ICP, ICS and Aqsaqniq. The operations of ICP and ICS were proportionately consolidated under Canadian GAAP. Under IFRS, NPR reports the interest in joint ventures using the equity method of accounting.
2. Aqsaqniq – Under IAS 27, the business partnership with Aqsaqniq is regarded as an investment in a subsidiary. Aqsaqniq is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest.

g) Prepaid expenses and other assets

Prepaid expenses and assets	December 31, 2010	January 1, 2010
Prepaid equity leases (1)	(24)	(1,997)
Interest in joint ventures (2)	(2,265)	(27)
Other - Aqsaqniq (3)	(423)	(500)
Other - Icicle (3)	(33)	(38)
Discontinued operations	(36)	(103)
	(2,781)	(2,665)

1. Equity leases – IAS 40 defines investment property as property that includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or for sale in the ordinary course of business. In the Nunavut region there is very little deeded land. The majority of our investment property in this region includes equity leases on land where substantially all benefits of ownership are those of the lessee. Under IFRS NPR has reclassified the unamortized balance of the prepaid equity lease payments as a component of the fair value of our investment property.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

2. Interest in joint ventures – The operations of ICP and ICS were proportionately consolidated under Canadian GAAP. NPR has reported its jointly controlled entities using the equity method of accounting. The value of NPR's prepaid expenses as reported under Canadian GAAP has decreased by $27,000 at transition to IFRS for the change in accounting used for ICP and ICS.
3. Other - Aqsaqniq and Icicle – Under IAS 27 the business partnership with Aqsaqniq and Icicle are regarded as investments in subsidiaries. Aqsaqniq is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest; and Icicle is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest.

h) Intangible assets and liabilities

Intangible assets and liabilities (1)	December 31, 2010	January 1, 2010
Above-market leases	(14)	(34)
In-place leases	(3,064)	(4,008)
Lease origination costs	(593)	(809)
	(3,671)	(4,851)
Below-market leases	(43)	(94)
	(43)	(94)

1. With adoption of IFRS, NPR has derecognized intangible assets and liabilities relating to tenant leases. These are now considered in the determination of the fair value of NPR's investment properties. The result was a decrease in intangible assets of $3.7 million (January 1, 2010 - $4.8 million) and a decrease in intangible liabilities of $43,000 (January 1, 2010 - $94,000), respectively at January 1, 2010.

i) Financial instruments – NPR Trust and Class B Limited Partnership units

IAS 32 "Financial Instruments: Disclosure and Presentation", ("IAS 32"); IFRS 9 "Financial Instruments" ("IFRS 9") (replacement of IAS 39), and; IAS 7 "Financial Instruments: Disclosures", ("IAS 7"). These standards establish the principles for recognizing, measuring and presenting financial instruments as assets, liabilities or equity and offsetting financial assets and liabilities.

Upon initial recognition, a financial instrument should be classified as a financial liability, a financial asset or equity in accordance with the substance of the contractual arrangement applying the definitions in these sections. NPR will assess its contractual arrangements and determine whether any give rise to treatment as a financial asset, financial liability or equity.

Management has determined that NPR's Trust units and Class B Exchangeable Limited Partnership units ("Class B units") do not qualify for equity treatment at transition to IFRS under IAS 32. NPR Trust units cannot be treated as equity because of the requirement to pay annual distributions equal to taxable income as per NPR's DOT which implies that NPR Trust units are debt because of the contractual obligation to deliver cash or another financial asset to another entity. The Class B units have the same requirement to pay distributions and also may be redeemed for NPR Trust units. Canadian GAAP allows for the treatment of multiple classes of redeemable trust units or Class B units to be treated as equity. IAS 32 stipulates that classes of equity must be identical to be treated as equity. The disclosure of separate classes of equity under Canadian GAAP implies that redeemable trust units and Class B units are somehow different and therefore would be treated differently under IAS 32. The ability to exchange Class B units for Trust units may imply a liability element exists because it imposes an unavoidable obligation to deliver units of the trust (i.e., a financial instrument of another entity). NPR has reported its Trust units and Class B units as liabilities at a fair value of $549.8 million at transition to IFRS.

Trust and Class B Limited Partnership Units	December 31, 2010	January 1, 2010
Reclassification from Stapled Unit Holders' equity (deficit)	-	368,690
Fair value adjustment	-	181,131
	-	549,821

Unit based compensation in the form of options or deferred units are classified as equity under Canadian GAAP. Since unit based compensation is to be settled by issuance of a financial liability itself, such unit based compensation would be classified as a financial liability. Measurement is based upon the fair value of the trust units using the Black Scholes options-pricing model, recognized over the vesting period at each reporting period.

Unit based compensation	December 31, 2010	January 1, 2010
Reclassification from Unitholders' equity (deficit)	2,091	1,135
Fair value adjustment	2,243	363
	4,334	1,498

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The IASB has issued IFRS 9, which will become effective January 1, 2013 as a replacement for IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new requirements address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. This is often referred to as the 'own credit' problem. An entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income ("OCI") section of the statement of income, rather than within the statement of earnings.

The IASB permits early adoption of the IFRS 9 and requires transition disclosure by all entities adopting the new IFRS. NPR has adopted the IFRS 9 requirements for financial assets and financial liabilities.

j) Mortgages

Mortgages payable	December 31, 2010	January 1, 2010
Mortgages payable (1)	(60,559)	(54,144)
Discontinued operations	(92,421)	(99,618)
	(152,980)	(153,762)
Current portion of long term debt – mortgage (1)	47,419	46,298
	(105,561)	(107,464)

1. Under IFRS a classified statement of financial position is presented requiring mortgages to be allocated between the current and non-current portions. The reported balances of property specific mortgages and subsidiary borrowings at December 31, 2010 decreased by approximately $8.0 million (January 1, 2010 - $7.6 million) due to the equity reporting of jointly controlled entities under IAS 31 compared to balances reported due to proportionate consolidation of jointly controlled entities in accordance with Canadian GAAP.

k) Deferred taxes

NPR is an open ended mutual fund trust which is not a taxable entity. The deferred tax liability under IFRS will generally be determined by applying tax rates to temporary differences based on the general expectation that the method of realization is through owning and operating our properties rather than through sale. NPR also has certain corporate subsidiaries which are subject to income tax on their respective taxable income at the applicable legislated tax rates.

IFRS requires NPR to recognize deferred income tax assets and liabilities based on estimated temporary differences expected as at January 1, 2011. Under the current legislation, NPR did not appear to qualify for the REIT Exemption. The deferred income tax provision arises from temporary differences between the estimated accounting and tax values of NPR's assets and liabilities at January 1, 2011 and has been calculated using expected tax rates between 19.1% and 28.4%. A deferred tax provision in the amount of $57.0 million has been recorded in the opening statement of financial position.

As a result of NPR's internal reorganization as set out in the Arrangement, which was approved by unitholders at a special meeting held on November 25, 2010, the REIT meets the definition of a Real Estate Investment Trust as defined in the Income Tax Act.

l) Bank indebtedness

The value of NPR's bank indebtedness as reported under Canadian GAAP has decreased at December 31, 2010 by nil (January 1, 2010 by $107,000) to IFRS for the change in accounting method used under IAS 31 for ICP, ICS, Aqsaqniq and Icicle. Under Canadian GAAP the operations of ICP, ICS and Icicle were proportionately consolidated while the equity method of accounting was used for Aqsaqniq.

m) Trade and other payables

The value of NPR's trade payables as reported under Canadian GAAP has decreased at December 31, 2010 by $246,000 (January 1, 2010 by $258,000) for the change in accounting method used under IAS 31 for ICP, ICS, Aqsaqniq and Icicle. Under Canadian GAAP the operations of ICP, ICS and Icicle were proportionately consolidated while the equity method of accounting was used for Aqsaqniq.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

n) Reconciliation of equity as reported under Canadian GAAP and IFRS

The following is a reconciliation of NPR's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at the transition date:

Thousands of dollars)	Notes	Trust Units	Contributed Surplus	Cumulative Net Earnings	Cumulative Distributions to Unitholders	Equity Attributable to Unitholders	Non-Controlling Interests	Total Equity
As reported under Canadian GAAP – December 31, 2009		**368,690**	**2,109**	**107,385**	**(187,291)**	**290,893**	**-**	**290,893**
Reclassification of non-controlling interests to equity	(i)	-	-	-	-	-	464	464
Investment property fair value adjustments	(ii)	-	-	245,741	-	245,741	1,287	247,028
Asset impairment	(iv)	-	-	(148)	-	(148)	-	(148)
NPR unit options	(v)	-	(1,135)	-	-	(1,135)	-	(1,135)
Unvested LTIP units	(v)	-	(974)	-	-	(974)	-	(974)
Trust unit reclassification to liabilities	(vi)	(368,690)	-	-	-	(368,690)	-	(368,690)
Unit options & LTIP fair value adjustment	(vi)	-	-	(180,520)	-	(180,520)	-	(180,520)
Distributions reclassification as cumulative net earnings	(vi)	-	-	(187,291)	187,291	-	-	-
Recovery of deferred taxes	(vii)	-	-	(34,887)	-	(34,887)	(160)	(35,047)
Investment in joint ventures	(viii)	-	-	(1,163)	-	(1,163)	-	(1,163)
Business consolidation	(i)(iix)	-	-	(284)	-	(284)	282	(2)
As reported under IFRS – January 1, 2010		**-**	**-**	**(51,167)**	**-**	**(51,167)**	**1,873**	**(49,294)**

The following is a reconciliation of NPR's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at December 31, 2010:

(Thousands of dollars)	Notes	Trust Units	Contributed Surplus	Cumulative Net Earnings	Cumulative Distributions to Stapled Unit Holders	Equity Attributable to Stapled Unit Holders	Non-Controlling Interests	Total Equity
As reported under Canadian GAAP – December 31, 2010		**431,695**	**2,091**	**174,941**	**(233,028)**	**375,699**	**-**	**375,699**
Reclassification of non-controlling interests to equity	(i)	-	-	-	-	-	382	382
Investment property fair value adjustments	(ii)	-	-	243,055	-	243,055	1,287	244,342
Reclassification of loan receivable	(iii)	-	-	97	-	97	-	97
Asset impairment	(iv)	-	-	(148)	-	(148)	-	(148)
NPR unit options reclassified as liabilities	(v)	-	(1,297)	-	-	(1,297)	-	(1,297)
Unvested LTIP units reclassified as liabilities	(v)	-	(794)	-	-	(794)	-	(794)
Unit options & LTIP exchanged for trust units at fair value	(vi)	265,192	-	-	-	265,192	-	265,192
Unit options & LTIP fair value adjustment	(vi)	-	-	(267,413)	-	(267,413)	-	(267,413)
Distributions reclassified as cumulative net earnings	(vi)	-	-	(187,291)	187,291	-	-	-
Reclassification of distributions paid	(vi)	-	-	(14,323)	14,323	-	-	-
Recovery of deferred taxes	(vii)	-	-	(21,355)	-	(21,355)	-	(21,355)
Investment in joint ventures	(viii)	-	-	(2,659)	-	(2,659)	-	(2,659)
Business consolidation	(i)(ix)	-	-	(351)	-	(351)	351	-
As reported under IFRS – December 31, 2010		**696,887**	**-**	**(75,447)**	**(31,414)**	**590,026**	**2,020**	**592,046**

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(i) Reclassification of non-controlling interests to equity

IAS 1 Presentation of Financial Statements ("IAS 1") requires non-controlling interests to be classified as a component of equity. Under Canadian GAAP non-controlling interest was classified outside of equity.

(ii) Investment property

NPR considers its' residential (multi-family and seniors) and commercial properties to be investment properties under IAS 40. Investment property includes land and buildings located in the Northwest Territories, Nunavut, British Columbia, Alberta and Newfoundland held primarily to earn rental income or for capital appreciation or both and is not used for administrative or staff housing purposes. Investment property is initially reported at cost. Subsequent to initial recognition, an entity is required to choose either the cost or fair value model to account for investment property. After review and analysis of the IAS 40 policy choices, NPR concluded that it would change its accounting policy in respect of investment property from depreciated historical cost to the fair value model, on the basis that this would reflect more relevant information in relation to these properties. The adjustment to retained earnings represents the cumulative unrealized gain in the fair value of NPR's residential and commercial property; net of the de-recognition of related intangible assets and liabilities which are reflected in the fair value of commercial property; the de-recognition of long term prepaid land leases in Nunavut which are inherent in the fair value of residential and commercial property; and, the recognition of deferred rent receivable.

The fair value of NPR's investment property is the amount that the property should exchange at between a willing buyer and a willing seller in an arm's length transaction. A combined external appraisal and internal valuation approach was used to value investment property. Management initially categorized investment properties into the following: multi-family, townhome, single family, seniors, mixed use and commercial facilities. External appraisers with expertise in each of the regions in which NPR operates were engaged to fair value approximately one third of the investment properties in each category and region. Management reviewed the external investment property appraisals for reasonableness and then applied externally obtained regional vacancy and Cap rate information to the remainder of NPR's investment properties on a regional basis to calculate their fair values. This change in accounting policy has also been applied to investment properties held in NPR's joint ventures and equity reported investments.

(iii) Reclassification of loan receivable

Renovations reclassified as an asset addition during the last quarter of 2010 have been reclassified at transition to IFRS.

(iv) Asset impairment

IAS 36.9 requires that an asset be assessed for impairment at the end of each reporting period. Certain assets purchased as part of a previous business acquisition were tested for impairment. It was determined that the carrying value of the assets exceeded the recoverable amount.

(v) Unit based payments

Unit option and LTIP unit based payments vest in tranches; one third immediately, one third after twelve months and one third after twenty four months. Under IFRS a financial liability is recognized for the unvested portion of unit options and LTIP. As at Dec. 31, 2010, $1.3 million (January 1, 2010 – $1.1 million) of stock option expense previously reported in contributed surplus was reclassified to a liability account; $794,000 for 52,496 unvested LTIP units (January 1, 2010 - $974,000, for 48,473 unvested LTIP units) were reclassified to a liability account. The financial liability was fair valued at transition to IFRS.

(vi) Financial instruments

IAS 32.16 defines a financial instrument as an equity instrument rather than a financial liability if, and only if, both of the following conditions are met.

a) The instrument includes no contractual obligation:
   - to deliver cash or another financial asset to another entity; or
   - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer.

b) If the instrument will or may be settled in the issuer's own equity instruments, it is:
   - a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
   - a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

NPR Trust units and Class B units did not meet the IFRS definition of equity under IAS 32.16 at January 1, 2010 because of the DOT requirement to pay distributions equal to taxable income. Therefore both are classified as financial liabilities at transition to IFRS. In addition, the units have been revalued to fair value using the closing trading price for December 31, 2009.

(vii) Deferred taxes

NPR has certain corporate subsidiaries which are subject to income tax on their respective taxable income at the applicable legislated tax rates.

IFRS requires NPR to recognize deferred income tax assets and liabilities based on estimated temporary differences expected as at December 31, 2010 and January 1, 2011. The deferred income tax provision arises from temporary differences between the estimated accounting and tax values of NPR's assets and liabilities at January 1, 2011 and has been calculated using the expected tax rates of 19.13% to 28.4%. NPR's deferred income tax liability related primarily to the increased carrying values of its investment properties at transition to IFRS. Deferred income taxes have also been recognized on the differences between the tax values and the carrying values of the investment property in NPR's equity investments and subsidiary companies. The deferred income tax liability under IFRS is determined by applying tax rates to temporary differences that are consistent with NPR's expectation that the method of realization will be through sale rather than through owning and operating its properties.

(viii) Investment in joint ventures

NPR is a 50% joint venture partner in two jointly controlled entities; ICS and ICP which were proportionately consolidated under Canadian GAAP.

IAS 31 allowed proportionate consolidation of jointly controlled entities. On May 12, 2011 the IASB issued IFRS 11, which requires jointly controlled entities to be reported using the equity method of accounting effective January 1, 2013 with early adoption allowed. In anticipation if IFRS 11, NPR has elected to use the equity method to account for its investment in joint ventures.

(ix) Business consolidation

NPR owns and operates certain investment properties using partnership and joint venture arrangements. GoGa Cho is 55% owned by NPR and has been consolidated reporting a 45% non-controlling interest; Aqsaqniq is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest; and Icicle is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest in this opening balance sheet.

NPR applied IAS 27; IAS 27.13 to IAS 27.17 defines control, identifying when a subsidiary should be consolidated. Control is deemed to exist if more than half of the voting power of an entity is owned directly or indirectly. Control also exists when less than half of the voting rights are owned when there is:

a) Power over more than half of the voting rights by virtue of an agreement with other investors;
b) Power to govern the financial and operating policies of the entity under an agreement;
c) Power to appoint the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
d) Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Management has concluded that NPR controls the GoGa Cho and effectively controls the Aqsaqniq and Icicle subsidiaries and has consolidated their operations reporting the appropriate non-controlling interest.

Non-controlling interest	Aqsaqniq	Icicle	GoGa Cho	Total
As reported under Canadian GAAP – December 31, 2009	**-**	**-**	**464**	**464**
Partner's Distributions	(92)	-	-	(92)
Partner's Equity – Deferred taxes	(38)	11	(133)	(160)
Partner's Equity – FV of assets	228	32	1,027	1,287
Partner's Equity – Retained earnings	262	112	-	374
As reported under IFRS – January 1, 2010	**360**	**155**	**1,358**	**1,873**

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Non-controlling interest	Aqsaqniq	Icicle	GoGa Cho	Total
As reported under Canadian GAAP – December 31, 2010	**-**	**-**	**382**	**382**
Partner's Distributions	(92)	-	-	(92)
Partner's Equity – Deferred taxes	-	-	-	-
Partner's Equity – FV of assets	228	32	1,027	1,287
Partner's Equity – Retained earnings	270	115	58	443
As reported under IFRS – December 31, 2010	**406**	**147**	**1,467**	**2,020**

o) Reconciliation of net earnings under Canadian GAAP to IFRS

	Note	Year ended December 31, 2010	Year ended December 31, 2010
Net earnings as reported under Canadian GAAP			67,556
Differences increasing (decreasing) reported amounts			
Subsidiaries and joint ventures	(i)		
Joint ventures			(1,052)
Subsidiaries			233
Investment properties	(ii)		
Fair value loss			(32,929)
Reverse Canadian GAAP depreciation expense			29,985
Operating costs capitalized under Canadian GAAP			(231)
Financial instruments	(iii)		
Trust Units and unit based payments			
Fair value loss			(86,894)
Distributions recorded as financing charge			(14,324)
Unit based compensation			(22)
Deferred taxes	(iv)		13,730
Net income as reported under IFRS			(23,948)

NPR did not have any comprehensive income for the periods reported.

(i) Subsidiaries and joint ventures

Net income was impacted by the change from consolidation principles under Canadian GAAP to consolidation principles under IFRS.

Jointly controlled entities under Canadian GAAP	NPR share	Non-controlling interest
Icicle	49%	51%
Aqsaqniq	49%	51%
GoGa Cho	55%	45%
ICS	50%	50%
ICP	50%	50%

The principal purpose and activity of NPR's subsidiaries and joint ventures is the holding of investment properties.

The Aqsaqniq joint venture was reported using the equity basis of consolidation and Icicle joint venture was proportionately consolidated under Canadian GAAP. NPR has consolidated these financial results into this consolidated statement of financial position reporting a 51% non-controlling interest. The GoGa Cho partnership has been consolidated into this consolidated statement of financial position reporting a 45% non-controlling interest. It had been similarly reported under Canadian GAAP.

The operations of ICS and ICP were proportionately consolidated under Canadian GAAP. IAS 31 allows either proportionate consolidation or the equity method of accounting for jointly controlled entities. However, the newly released standard, IFRS 11 – Joint Arrangements, allows only the equity method of accounting to be used to account for jointly controlled entities. When NPR selected its accounting policies under IFRS, it reviewed the exposure drafts on proposed standards, and chose to use the equity method.

(ii) Investment properties

As discussed above in the changes to equity, NPR values its investment properties at fair value under IFRS, changed from cost with a provision for depreciation. Fair value losses have been recorded under IFRS and Canadian GAAP depreciation expense on these properties has been reversed.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Under IFRS, borrowing costs cannot be capitalized during the lease up period on a newly developed property, while Canadian GAAP permits capitalization of borrowing costs and operation losses during the lease up period. Costs capitalized under Canadian GAAP for the first nine months of 2010 were expensed under IFRS.

(iii) Financial instruments

Trust Units were considered equity under Canadian GAAP and were reclassified to debt. Likewise, the obligation for unit based payments was also reclassified to debt from equity. As discussed above, these liabilities are carried at fair value and the related increases to fair value are reflected as losses on the statement of income.

Distributions to unit holders when the Trust Units are classified as debt are considered interest expense under IFRS.

The unit based payment obligation was calculated in accordance with IFRS resulting in a small change to unit based compensation expense.

(iv) Deferred income taxes

The aforementioned recording of investment properties at fair value gave rise to additional deferred income taxes under IFRS. Changes in the fair value of investment properties affected the amount of deferred tax expense recorded under IFRS.

p) Material adjustments to cash flows

The transition from Canadian GAAP to IFRS had no impact on the actual cash flows of NPR; however, the changes in presentation of the combined statement of earnings and comprehensive earnings require changes in the presentation of the statement of cash flows. The key changes in presentation relate to:

- the accounting treatment and classification of partially owned subsidiaries and joint ventures;
- the reclassification of NPLP Class B units from equity to financial liabilities fair valued through profit and loss until completion of the internal reorganization on December 31, 2010;
- the reclassification of REIT Trust Units from equity to financial liabilities fair valued through profit and loss until unitholder approval of the changes to the DOT on May 11, 2010 giving the trustees authority to determine the amounts of distributions;
- the reclassification of Unit based compensation from equity to financial liabilities fair valued through profit and loss;
- investment property fair value adjustments including the elimination of depreciation on these assets;

The change in accounting treatment of joint venture entities ICP and ICS from proportional consolidation to equity accounting and the change in accounting treatment of subsidiaries to consolidation with a non-controlling interest decreased the January 1, 2010 bank indebtedness balance by $107,000 and decreased the December 31, 2010 cash balance by $295,000.

RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 9 – Financial Instruments – Classification and Measurement

The IASB released IFRS 9 in October 2009 as the first step in replacing IAS 39 – Financial Instruments: Recognition and Measurement. It was amended in October 2010 to include financial liabilities, most of which were carried forward unchanged from IAS 39. IFRS 9 is based on how an entity manages its financial instruments in the context of its business model, the contractual cash flow characteristics of the financial assets and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. In December 2011, the IASB amended IFRS 9 to require application for annual periods beginning on or after January 1, 2015 and not to require restatement of comparative period financial statements upon initial application. NPR has early adopted this standard.

IFRS 10 – Consolidated Financial Statements

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It eliminates the risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity. IFRS 10 supersedes IAS 27 – Consolidated and Separate Financial Statements and SIC - 12 Consolidation – Special Purpose Entities and is effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted. NPR is evaluating the impact of this standard on its combined financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS (continued)

IFRS 11 – Joint Ventures ("IFRS 11") and IAS 28 – Investment in Associates ("IAS 28")
IAS 28 which was amended in 2011 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. IFRS 11 and IAS 28 are effective for annual periods beginning on or after January 1, 2013. NPR currently accounts for its joint ventures using the equity method and does not expect IFRS 11 and IAS 28 to have an impact on its combined financial statements.

IFRS 12 – Disclosure of Interests in Other Entities ("IFRS 12")
IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. Disclosure of information that will assist financial statement users evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements is required. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted. NPR is evaluating the impact of this standard on its combined financial statements.

IFRS 13 - Fair Value Measurement ("IFRS 13")
IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements except in specified circumstances. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted. NPR is evaluating the impact of this standard on its combined financial statements.

IAS 1 – Presentation of Financial Statements
On June 16, 2011, the IASB released amendments to IAS 1 related primarily to the presentation of Other Comprehensive Income. The changes are effective for annual periods beginning on or after July 1, 2012, early adoption permitted. NPR does not expect the amendments to IAS 1 to have a significant impact on its combined financial statements.

IAS 19 – Employee Benefits ("IAS 19")
The amendments to IAS 19 relate to defined benefit assets and liabilities and related disclosures and to the accounting for termination benefits, as well as miscellaneous other matters. The changes to IAS 19 are effective on a modified retrospective basis for annual periods beginning on or after January 1, 2013, early adoption permitted. NPR does not expect the amendments to IAS 19 to have a significant impact on its combined financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Long-Term Debt and Operating Facilities

Management's responsibility is to ensure that NPR has sufficient liquidity by maintaining a reasonable amount of credit facilities to fund CAPEX and investment property capital improvements, stapled unit distributions and provide for future acquisitions. NPR is able to finance its commitments with cash flow from operations; a $50.0 million revolving credit facility with a syndicate of Canadian chartered banks and an additional $7.5 million revolving credit facility with another Canadian chartered bank secured by investment properties; mortgage debt secured by investment properties and equity.

At December 31, 2011, NPR has two revolving credit facilities totaling $57.5 million for acquisition and operating purposes. The $50.0 million facility bears interest at prime plus 1.00% or Bankers' Acceptance plus 2.25% with a maturity date of May 17, 2012. Specific properties with a carrying value of $163.3 million (December 31, 2010 $158.7 million) have been pledged as collateral security for the operating facilities. On July 28, 2011, NPR renewed its $7.5 million revolving credit facility through July 28, 2012. The negotiated interest rate on the $7.5 million facility is also at prime plus 1.00% or Bankers' Acceptance plus 2.25% for the following twelve months. At December 31, 2011 NPR had utilized $21.0 million (December 31, 2010 – $7.9 million) of the operating facilities. NorSerCo's total assets and net income are restricted to less than 3.0% of NPR's combined assets or net income in the agreements.

During the year ended December 31, 2011, NPR completed $76.7 million in mortgage financings, renewals and assumptions at a weighted average rate of 4.49% and a weighted average term to maturity of 8.6 years. The proceeds were used to repay existing mortgages and to fund acquisitions completed in the year. NPR continues to extend the term on new and renewal mortgages, utilizing 10 year terms where possible. Mortgage interest rates decreased slightly during the year.

LIQUIDITY AND CAPITAL RESOURCES (continued)

NPR utilizes Canadian Mortgage and Housing Corporation ("CMHC") insured mortgage lender financing when possible to obtain up to 75% loan to value of CMHC's assessed value of a residential property. NPR can obtain a lower interest rate on properties financed using insured mortgage lender financing, after including the cost of the insurance, than obtaining conventional financing. The insurance is transferable between approved lenders which lowers the overall risk of not being able to refinance a property on maturity.

NPR continuously monitors interest rates to identify opportunities for the reduction of its weighted average interest rate. NPR's weighted average interest rate on mortgage debt at December 31, 2011 decreased to 4.71% compared to 4.76% at September 30, 2011. The weighted average term to maturity decreased to 5.2 years compared to 5.3 years September 30, 2011.

The following table outlines NPR's mortgages payable maturity schedule for the next ten years and thereafter:

(Thousands of dollars)	Principal Repayments During the Year	Principal on Maturity	Total	% of Total	Weighted Average Interest Rate
2012	22,010	48,005	70,015	11.5%	4.55%
2013	15,189	81,309	96,498	15.9%	4.50%
2014	13,304	70,848	84,152	13.8%	4.09%
2015	12,176	42,312	54,488	9.0%	4.78%
2016	8,939	65,683	74,622	12.3%	5.01%
2017	7,852	12,337	20,189	3.3%	5.03%
2018	6,882	44,131	51,013	8.4%	4.77%
2019	6,370	10,053	16,423	2.7%	4.47%
2020	6,199	14,966	21,165	3.5%	4.61%
2021	5,436	106,145	111,581	18.4%	5.05%
Thereafter	790	6,709	7,499	1.2%	4.05%
	105,147	**502,498**	**607,645**	**100.0%**	**4.71%**

Debt to Gross Book Value

At its 2010 AGM on May 11, 2010, the Trustees were permitted to make the necessary amendments to the REIT's declaration of trust as a result of the changes in accounting standards. For the purposes of this MD&A, Debt to Gross Book Value is calculated on the combined Entities. The REIT's DOT permits a maximum Debt to Gross Book Value of 70%. NPR's Debt to Gross Book Value, as defined in the DOT and reported under IFRS fair values is 47.8% at December 31, 2011 compared to 47.6% at December 31, 2010. NPR's Debt to Gross Book Value, as defined in the DOT, increased to 52.8% at December 31, 2011 compared to 48.6% at December 31, 2010 based on the historical cost of NPR's capital assets at gross book value.

On June 14, 2011 the Trustees approved the calculation of Debt to Gross Book Value be revised such that the numerator not include NPRLP Class B units, NorSerCo Special Shares or unit based compensation payable and the denominator be based on the historical 'cost' of NPR's capital assets defined as follows:

- The aggregate of the following:
  i. Current capital assets, as reported on the combined statement of financial position;
  ii. Assets held for disposal, as reported on the combined statement of financial position;
  iii. Original cost of investment property plus CAPEX additions;
  iv. Original cost of property, plant and equipment;
  v. Borrowing costs capitalized to the property in accordance with IFRS;
  vi. The carrying value of all other assets, in accordance with IFRS;
  vii. Impairments under IFRS that have not been reversed; and
  viii. Any deferred tax liability arising out of an acquisition.

In addition, original cost is defined as:

- "Original cost" means the purchase price of the asset including its purchase price and any directly attributable expenditure, including professional fees, property transfer taxes, appraisal fees, installation and assembly fees and other transaction costs.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Maintaining a low Debt to Gross Book Value based on historical cost is consistent with NPR's conservative management style. NPR's goal is to operate at an approximate 60% Debt to Gross Book Value based on historical cost financial metric.

NPR's Class B units and NorSerCo special shares, if any had been issued, would be reported as financial liabilities under IFRS. Under NPR's definition of debt, they would not be included in the numerator for the purposes of this calculation. The calculation of Debt to Gross Book Value for the Entities is shown below:

	Historical Cost		Fair Value	
(Thousands of dollars)	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
(Cash)	**(2,670)**	(2,921)	**(2,670)**	(2,921)
Operating facilities	**21,000**	7,898	**21,000**	7,898
Mortgages payable	**607,646**	523,540	**607,646**	523,540
Debt	**625,976**	528,517	**625,976**	528,517
Investment properties	**783,827**	857,512	**1,043,485**	857,512
Property , plant and equipment	**67,611**	43,754	**67,611**	43,754
Property held for sale	**204,368**	204,200	**190,547**	204,200
Accumulated depreciation and amortization	**152,353**	4,657	**7,434**	4,657
Deferred income taxes payable arising on acquisitions	**(21,900)**	(21,900)	**-**	-
Gross Book Value	**1,186,259**	1,088,223	**1,309,077**	1,110,123
Debt to Gross Book Value	**52.8%**	48.6%	**47.8%**	47.6%

Debt Service Coverage and Interest Service Coverage

NPR is subject to financial covenants in its mortgages payable and operating facilities. The principal financial covenants are defined as follows:

- Debt Service Coverage – calculated as net earnings before interest (not including distributions classified as interest paid on REIT Trust units or Class B units), unrealized fair value adjustments, taxes and depreciation and amortization divided by the debt service payments (total interest expense (not including distributions classified as interest paid on REIT Trust units or Class B units), and principal repayments);
- Interest Coverage – calculated as net earnings before interest (not including distributions classified as interest paid on REIT Trust units or Class B units), unrealized fair value adjustments, taxes and Depreciation divided by total interest expense (not including distributions classified as interest paid on REIT Trust units or Class B units); and,
- Debt to Gross Book Value as calculated above.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Calculations for Debt Service Coverage and Interest Service Coverage for the Entities are shown below:

(Thousands of dollars)	Year ended December 31, 2011	Year ended December 31, 2010
Earnings from combined operations before taxes	**86,601**	(81,086)
Depreciation and amortization	**3,355**	2,486
Interest on mortgages	**27,977**	26,290
Interest on operating facilities	**622**	1,163
Interest (distributions) on units	**26**	14,324
Unrealized fair value gains (losses)	**(22,880)**	119,798
Net earnings before interest, taxes and Depreciation	**95,701**	82,975
Interest on mortgages	**27,977**	26,290
Interest on operating facilities	**622**	1,163
Total interest expense	**28,599**	27,453
Principal repayments	**17,899**	16,571
Debt service payments	**46,498**	44,024
Interest Coverage	**3.35**	3.02
Debt Service Coverage	**2.06**	1.88

Interest coverage for the year ended December 31, 2011 improved to 3.35 compared to 3.02 for the year ended December 31, 2010. Debt Service Coverage for the year ended December 31, 2011 was 2.06 compared with the year ended December 31, 2010 at 1.88. During the year ended December 31, 2011 and as at the year ended December 31, 2010, NPR complied with all externally imposed capital requirements and all covenants relating to its debt facilities.

Equity

Management determined that the REIT's Trust units and Class B Exchangeable Limited Partnership units ("Class B units") did not qualify for equity treatment at transition to IFRS under IAS 32. The REIT Trust units could not be treated as equity because of the requirement to pay annual distributions equal to taxable income as per the REIT's DOT; which implied that the REIT's Trust units are debt because of the contractual obligation to deliver cash or another financial asset to another entity. The Class B units have the same requirement to pay distributions and also may be redeemed for REIT Trust units. GAAP allows for the treatment of multiple classes of redeemable trust units or Class B units to be treated as equity. IAS 32 stipulates that classes of equity must be identical to be treated as equity. The disclosure of separate classes of equity under GAAP implies that redeemable trust units and Class B units are somehow different and therefore would be treated differently under IAS 32. The ability to exchange Class B units for Trust units may imply a liability element exists because it imposes an unavoidable obligation to deliver units of the trust (i.e., a financial instrument of another entity).

The IASB has issued IFRS 9 as a replacement for IAS 39. The requirements for financial assets were issued November 2009 with most of the requirements under IAS 39 for financial liabilities carried forward unchanged and issued the fourth quarter of 2010. All of the requirements of IAS 39 were replaced by the end of the first quarter of 2011. The IASB permitted early adoption of the final IFRS and required transitional disclosure by all entities adopting the new IFRS. NPR has adopted the IFRS 9 requirements for financial assets and financial liabilities and reported its Trust units and Class B units as liabilities at a fair value of $549.8 million at transition to IFRS. Subsequent to the unitholder approval to allow the Board of Trustees discretion in determining annual distributions at the May 11, 2010 AGM, NPR's stapled units are treated as equity.

On May 27, 2011, NPR completed a public offering of 1,955,000 stapled units at $29.85 per unit for gross proceeds of $58.4 million. The proceeds were used to pay down credit facilities due to the acquisitions in the first quarter of 2011 and, to acquire a portfolio of properties located in Iqaluit, Nunavut.

The acquisition of investment property in Labrador City, NL during the fourth quarter of 2011 was partially settled by the issuance of 67,796 NPR Class "B" Units and NorSerCo Special Shares. The securities which can be exchanged for NPR stapled units currently do not qualify for equity treatment under IAS 32 and are reported as financial liabilities.

LIQUIDITY AND CAPITAL RESOURCES (continued)

(Thousands of dollars)		
	(000's) Units	$
Equity – January 1, 2011	27,442	590,026
Stapled units issued under prior year LTIP grants	11	320
Stapled units granted under current year LTIP	22	618
Public offering of stapled units	1,955	58,357
Issue costs		(2,655)
Comprehensive earnings		85,896
Distributions to unitholders		(44,025)
Equity – December 31, 2011	**29,430**	**688,537**

NPR's Capital is comprised of:

REIT Units
The total authorized number of trust units is unlimited. The total number of Trust Units of the REIT outstanding as at December 31, 2011 is 29,430,297 (December 31, 2010 – 27,442,306).

NorSerCo Common Shares
The total authorized number of common shares is unlimited. The total number of Common Shares of NorSerCo outstanding as at December 31, 2011 is 29,430,297 (December 31, 2010 – 27,442,306). NorSerCo Common Shares are "stapled" to REIT Units and trade together as "Stapled Units" on the Toronto Stock Exchange under the trading symbol NPR.UN.

NPR Limited Partnership Exchangeable Units and Special Voting Units ("NPRLP")
As part of the Arrangement, a wholly owned partnership, NPR Limited Partnership was created. NPR LP can issue NPRLP Class B Units in conjunction with property acquisitions. NPRLP Class B Units can be exchanged for trust units at any time at the option of the holder. Each NPRLP Class B Unit has a "Special Voting Unit" attached to it, which entitles the holder to one vote, either in person or by proxy at the meeting of unitholders of the trust as if he or she was a unitholder of the trust.

The total number of NPRLP Class B Units outstanding as at December 31, 2011, is 67,796 (December 31, 2010 – nil). NPRLP Class B units are classified as financial liabilities on the statement of financial position.

NorSerCo Special Shares
The total authorized number of special shares is unlimited. The NorSerCo special shares are "stapled" to the NPRLP Class B Units, a wholly owned subsidiary of the REIT. The special shares are convertible into common shares upon NPRLP Class B unitholders exercising their option to convert to REIT Units.

The total number of NorSerCo special shares outstanding as at December 31, 2011, is 67,796 (December 31, 2010 – nil). NorSerCo special shares are classified as financial liabilities on the statement of financial position.

Distributions to Unitholders
Monthly cash distributions to unitholders were $0.1233 per unit or $1.48 per unit on an annual basis up to July 2010. Effective with the August, 2010 distribution, monthly distributions were increased to $0.1275 per unit or $1.53 per unit on an annual basis. All distributions for the year ended December 31, 2011 and the year ended December 31, 2010 were made by the REIT only.

Unit Options
At December 31, 2011 there are 497,131 options outstanding and exercisable with a weighted average exercise price of $22.05. The Option Plan was amended and approved by the TSX to allow for the issuance of stapled units following the internal reorganization. No options were granted or exercised during the quarter. The following table summarized the outstanding unit options as at December 31, 2011:

LIQUIDITY AND CAPITAL RESOURCES (continued)

Exercise Price	Number Outstanding at December 31, 2011	Weighted-Average Remaining Contractual Life In Years	Weighted-Average Exercise Price	Number Exercisable at December 31, 2011	Weighted-Average Exercise Price
$23.12	431,300	1.4	$23.12	431,300	$23.12
$15.05	65,831	2.2	$15.05	65,831	$15.05
	497,131	1.5	$22.05	497,131	$22.05

Working Capital Requirements

NPR requires sufficient working capital resources to fund day to day operating expenditures, sustaining CAPEX, distributions to unitholders and interest costs. NPR expects that funds generated from operations will be sufficient to cover these expenditures. Principal repayments on existing mortgages are funded in part through the funds generated from operations and through refinancing of mortgages maturing during the year.

Capital Improvements and Sustaining CAPEX

(Thousands of dollars)	Three months ended December 31		Year ended December 31	
	2011	2010	**2011**	2010
Sustaining CAPEX	**2,026**	987	**11,578**	14,541
Capital improvements	**3,796**	1,004	**14,844**	8,481
Furniture and fixtures	**122**	213	**574**	1,303
	5,944	2,204	**26,996**	24,325

Capital improvements are capital repairs or additions, improvements to the properties to meet investment requirements and expenditures made in the 18 months following the acquisition of a property to complete any deferred maintenance. Capital improvements are generally funded from borrowings associated with the improvement projects.

Sustaining CAPEX represents ongoing expenditures required to maintain the productive capacity of the REIT's portfolio. These include capital expenditures to maintain and renew common areas, HVAC systems, building envelopes, investments in wood pellet boilers, expenditures to reduce energy consumption and to refurbish units on tenant turnover. Sustaining CAPEX is generally funded through cash flow from operations. Sustaining CAPEX for the year ended December 31, 2011 was incurred primarily in the residential rental portfolio and on a per door basis represents approximately $1,674 per unit (2010 – $1,630 per unit). CAPEX is lower in 2011 because NPR completed most of the catch-up of CAPEX during 2010 and, as expected, expenditures returned to normal levels in 2011.

RISK FACTORS

The REIT operates under a strict set of guidelines as set out in its DOT, which covers areas such as the maximum debt leverage allowed, investment restrictions, management authorities and environmental risks. Additional risk factors are identified and discussed in NPR's Annual Information Form which can be found on NPR's website at www.npreit.com or on SEDAR at www.sedar.com. Risks and uncertainties in NPR's operations include, but are not limited to the following:

Interest Rate Risk

The REIT is exposed to interest rate risk on mortgages payable and does not hold any financial instruments to mitigate that risk. In the current economic environment, it is difficult to predict what future interest rates will be and as such, the REIT may not be able to continue to renew mortgage loans with interest rates that are lower than those currently in place. The REIT utilizes both fixed and floating rate debt. Interest rate risk related to floating interest rates is limited primarily to the utilization of operating facilities. Management mitigates interest rate risk by utilizing fixed rate mortgages, ensuring access to a number of sources of funding and staggering mortgage maturities with the objective of achieving relatively even annual debt maturities. To the extent possible, the REIT maximizes the amount of mortgages on residential rental properties where it is possible to lower interest rates through Canada Mortgage and Housing Corporation mortgage insurance.

RISK FACTORS (continued)

A sensitivity analysis on floating rate debt has been completed based on the exposure to interest rates at the balance sheet date. Floating rate debt includes all mortgages payable which are not subject to fixed interest rates and the credit facilities. A 0.50% change in interest rates, keeping all other variables constant, would change NPR's net earnings for the year ended December, 2011 by $86,000.

Property Tax Risk

Over the past few years, property tax expense has increased as a result of re-evaluations of properties by municipalities and the tax rates applied to the valuations. NPR, in conjunction with outside consultants, regularly reviews these re-evaluations and appeals where warranted.

Income Tax Risk

After the December 31, 2010 internal reorganization, the REIT qualifies for the REIT Exemption and is not taxable. Governments may introduce taxation of REITs without warning or prior consultation. NPR will take any action necessary to minimize any effect on its stapled unit holders at that time.

As NorSerCo is a taxable Canadian corporation, it follows the liability method with respect to accounting for income taxes. Deferred income tax assets and liabilities are determined based on temporary differences between the carrying amount and the tax basis of assets and liabilities. Deferred income tax assets and liabilities are measured using the enacted or substantively enacted tax rates, as appropriate, that will be in effect when these differences are expected to reverse. Deferred income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

On July 20, 2011, the Minister of Finance released a press release (the "Press Release") announcing proposed changes to the tax treatment of real estate investment trusts that have issued publicly listed stapled securities. Under these changes, NorSerCo will not be entitled to deduct rent that is paid or payable by it to the Partnership once the rules come into effect and apply to NorSerCo. For issuers which, like NPR, had stapled securities issued and outstanding on July 19, 2011, the Press Release proposes a transition period for the application of these new rules ending on July 21, 2012, which may be cut short and end on the earliest day after July 20, 2011 on which either a security of the issuer becomes a stapled security of the issuer or a stapled security of the issuer is materially altered. The Press Release did not include detailed draft legislation but, based on the information in it; it appears that the transition period for NPR will end no later than January 17, 2012, the date on which Stapled Units were issued pursuant to rights granted under the LTIP after July 20, 2011. In addition, from time to time NPR issues NPRLP Class B units and NorSerCo Special Shares to vendors in consideration for the acquisition of properties, the most recent of which transactions occurred on October 1, 2011. Pending the release of draft legislation, it is uncertain whether these rules will apply to such transactions. The aggregate additional corporate tax payable by NorSerCo as a consequence of the rules announced in the Press Release is not expected to be material, will not be recurring, and will not affect NPR's cash distributions. In future, the application of the new rules to NorSerCo may adversely affect its ability to pay dividends on the NorSerCo Shares.

NPR is currently evaluating alternatives to determine the appropriate course of action to deal with these proposals to the taxation rules. Management will update unit holders throughout this process and expects to be in a position to implement its action plan in the first half of 2012.

Utility Cost Risk

NPR's quarterly operating costs and earnings have a seasonal component to them resulting from higher utility costs in the first and fourth quarters of each year. As well, NPR is exposed to utility cost risk, which results from the fluctuation in retail prices for fuel oil, natural gas and electricity, the primary utilities used to heat its properties. The exposure to utility cost risk is restricted primarily to the residential rental and execusuites and hotels portfolio. The leases in the remainder of the portfolio generally provide for recovery of operating costs from tenants, including utilities. Because of the northern location of a significant portion of NPR's portfolio, the exposure to utility price fluctuations is more pronounced in the first and last fiscal quarter of the year.

NPR manages its exposure to utility risk through a number of preventative measures, including retrofitting properties with energy efficient appliances, fixtures and windows. With the exception of a fixed price utility contract in place on certain residential rental units in Alberta, NPR does not utilize hedges or forward contracts to manage exposure to utility cost risk.

RISK FACTORS (continued)

Heating oil is the primary source of fuel for heating properties located in Nunavut and the Northwest Territories. Over the last three years, NPR converted heating systems for some properties in Yellowknife from fuel oil based boilers to wood pellet boilers and in Inuvik, all of the fuel oil based boilers in the residential portfolio have now been converted to natural gas based boilers. The investment in these environmentally friendly and more efficient boilers continues to reduce NPR's exposure to volatile heating oil prices. Exposure to increases in the cost of heating oil is partially offset by the ability to recover these increases from a significant proportion of its commercial and some residential tenants.

Natural gas is the main source of fuel for heating properties located in Alberta, BC and Inuvik, NWT. NPR has fixed price contracts for certain of its properties which accounts for approximately 18% of the Entities' usage in Alberta that ends during the third quarter of 2011. Natural gas prices in Inuvik and BC are not subject to regulated price control and NPR does not use financial instruments to manage the exposure to the price risk.

Management prepared a sensitivity analysis on the impact of price changes in the cost of heating oil and natural gas. A 10% change in the average price of heating oil and natural gas would impact NPR's net earnings by $477,000 for the year ended December 31, 2011.

Electricity is the primary source of fuel for heating properties located in Newfoundland as well as parts of north-eastern BC. In Newfoundland, electricity is purchased from the provincially regulated utility and is directly paid by the tenants for a significant portion of the Entities' multi-family rental units. As a result, there is no significant risk to NPR regarding the price of electricity.

Liquidity Risk

Ultimate responsibility for liquidity risk management lies with management and the Board of Trustees. NPR manages liquidity risk by managing mortgage and loan maturities to ensure a relatively even amount of mortgage maturities in each year. At December 31, 2011, NPR has two revolving credit facilities totalling $57.5 million. At December 31, 2011, NPR has utilized $21.0 million of its operating facilities compared to $7.9 million at December 31, 2010. Cash flow projections are completed on a regular basis to ensure there will be adequate liquidity to maintain operating, capital and investment activities in addition to making monthly distributions to unit holders. The Board of Trustees reviews the current financial results and the annual business plan in determining appropriate distribution levels.

The current low interest rate environment and NPR's mortgage financing program continues to provide financing for multi-family properties at lower interest rates than were previously in place. It is not possible to predict whether the current low interest rate environment will continue.

Credit Risk

NPR's credit risk primarily arises from the possibility that tenants may not be able to fulfill their lease commitments. Tenant receivables are comprised of a large number of tenants spread across the geographic areas in which NPR operates. There are no significant exposures to single tenants with the exception of AgeCare Investments Ltd. ("AgeCare"), which leases seniors' properties in Alberta and BC, and the Governments of Canada, Nunavut and the Northwest Territories, which lease a large number of residential units and commercial space in the Northwest Territories and Nunavut.

NPR mitigates credit risk through conducting thorough credit checks on prospective tenants, requiring rental payments on the first of the month, obtaining security deposits approximating one month's rent from tenants where legislation permits, and geographic diversification in its portfolio. NPR records a specific bad debt provision on balances owed from past tenants and provides an allowance for receivables, net of security deposits, from current tenants where the expected amount to be collected is less than the actual accounts receivable.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are initially recognized at fair value in accordance with IFRS 9 – Financial Instruments ("IFRS 9") and are subsequently accounted for based on their classification as described below. IFRS 9 simplifies accounting for financial assets by replacing the multiple measurement categories in IAS 39 with a single principle based approach to classification. IFRS 9 require that all financial assets and liabilities be classified as fair value through profit or loss or amortized cost on the basis of NPR's business model for managing financial assets or financial liability and the cash flow characteristics of the financial instrument. Financial assets and financial liabilities are initially measured at fair value plus transaction costs or those financial assets and financial liabilities measured at fair value through profit or loss ("FVTPL"); fair value not including transaction costs. Financial assets measured at amortized cost are assessed for impairment each reporting period.

NPR had no credit derivatives over financial assets at December 31, 2011, December 31, 2010 and throughout the intervening periods.

FINANCIAL INSTRUMENTS (continued)

When NPR's objective is to hold the financial asset to collect the contractual cash flows (tenant A/R, term deposits, vendor take back mortgages), the financial assets are measured at amortized cost. Financial assets are classified as FVTPL when they do not meet the following criteria; i) the financial asset is not held to collect a contractual cash flow, ii) the payments received are not solely principal and interest on the amount of principal outstanding. NPR would derecognize a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities are measured at fair value minus transaction costs directly attributable to the issue of the financial liability when the liability is not valued through profit or loss. A hierarchical method is used to measure fair value: a) active market with quoted prices; b) no active market - requiring valuation techniques: recent market transactions, discounted cash flow, reference to a similar transaction; c) no active market - equity instruments: cost less impairment may be used if no reliable estimate of fair value can be made. Distributions or dividends payable declared on Trust units or NorSerCo common shares with a record date of or prior to NPR's reporting date are recorded as a financial liability. NPRLP Class B units and NorSerCo special shares if any had been issued would be recorded as financial liabilities. NPR would derecognize a financial liability when its obligations are discharged, cancelled or expire. Any difference between the amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

TRANSACTIONS WITH RELATED PARTIES

The Board of Trustees of the REIT and Board of Directors of NorSerCo accepted the resignation of the Chairman of AgeCare, which leases six seniors' properties from the REIT on August 4, 2011. As a result, transactions with Agecare are no longer considered related party transactions. For the year ended December 31, 2011, rental revenue from Agecare totalled $8.6 million (2010 – $12.6 million). Amounts outstanding in accounts receivable pertaining to this lease were $nil at December 31, 2011 (December 31, 2010 – $nil, January 1, 2010 – $nil). In addition, AgeCare was paid an annual fee for advisory services provided to NPR respecting prospective acquisitions of seniors' properties. For the year ended December 31, 2011, NPR paid $80,000 for these services (2010 – $120,000).

A company owned by a Trustee of NPR leases commercial space from NPR under normal commercial terms. NPR earned rental revenue from that arrangement of $478,000 for the year December 31, 2011 (2010 - $490,000). Amounts outstanding in accounts receivable pertaining to this lease were $nil at December 31, 2011 (December 31, 2010 – $nil).

Key management personnel are comprised of the REIT's Board of Trustees, NorSerCo's Board of Directors and the Entities' executive officers

SUBSEQUENT EVENTS

On January 15, 2012, the Board declared distributions payable February 15, 2012 in the amount of $0.1275 to stapled unitholders of record January 31, 2012. On February 15, 2012 the Board declared distributions payable March 15, 2012 in the amount of $0.1275 to stapled unitholders of record February 29, 2012.

On February 28, 2012, NPR obtained a $10.0 million term loan at prime plus 1.0% repayable by May 15, 2012, or at the option of the borrower.

During the period January 1, 2012 – March 13, 2012, NPR acquired the following investment properties:

(Thousands of dollars)		Unit Count / Sq Ft	Region	Total Acquisition Costs	Mortgage Funding	Units Issued	Cash Paid
January 31, 2012	Multi-family	24	Nanaimo	2,172	-	-	2,172
January 31, 2012	Commercial	29,456	St John's	6,520	-	-	6,520
February 28, 2012	Multi-family	39	Gander	2,105	-	-	2,105
February 28, 2012	Multi-family	24	Nanaimo	2,135	-	-	2,135
		87/29,456		12,932	-	-	12,932

SUBSEQUENT EVENTS (continued)

Between January 1, 2012, and March 13, 2012 NPR completed new financing of $23.1 million with interest rates between 3.03% and 3.06% and terms to maturity of 10 years. Proceeds were used to pay down existing debt and pay down the credit facilities.

On February 29, 2012, NPR announced a bought deal public offering of 2,000,000 stapled units at an issue price of $32.85 for gross proceeds of $65.7 million. A 15% over-allotment option is available to the members of the underwriting syndicate. Closing is expected on or about March 23, 2012.

On March 5, 2012, NPR completed the sale of a seniors' facility in Newfoundland to its owner-operator for gross proceeds of $6.8 million.

CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies for NPR are in accordance with IFRS and are described in Note 3 to the Audited Combined Financial Statements as at and for the year ended December 31, 2011. Management believes the policies which are most subject to estimation and management's judgment are those outlined below.

Fair Value of Investment Property

In accordance with IFRS, NPR has elected to value its investment properties at fair value. While properties are independently appraised on an ongoing basis, not every property is appraised every year. Significant judgment is applied in arriving at these values, particularly as many of the properties are in smaller communities with limited trading activity. Changes in the value of the rental properties affect earnings

Useful Life of Property, Plant and Equipment

IFRS requires that PP&E be componentized and that each component be accounted for and depreciated at its estimated useful life. Estimated useful lives of capital assets are periodically evaluated by management and any changes in these estimates are accounted for on a prospective basis.

Allowance for Doubtful Accounts

An assessment must be made about whether accounts receivable are collectible from tenants. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected.

Accrued liabilities

Entities must estimate accrued liabilities when invoices have not been received in order to ensure all expenditures have been recognized. Where actual future expenditures differ from quarterly estimates, future earnings would be affected.

Capital adequacy

NPR prepares estimated cash flow projections on a regular basis to ensure there will be adequate liquidity to maintain operating, capital and investment activities in addition to making monthly distributions to unitholders and uses these estimates to assess capital adequacy. The Trustees review the current financial results and the annual business plan in determining appropriate capital adequacy and use this to determine distribution levels. Changes in these estimates affect distributions to unitholders and the Entities' cost of capital, which in turn affects earnings.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DC&P") and internal controls over financial reporting ("ICFR") have been designed and implemented by, or under the supervision of NPR's Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and Senior Management. NorSerCo has the same senior management as NPR and has the same DC&P and ICFR as the REIT. DC&P ensure that material information relating to NPR is communicated to them by others in the organization as it becomes known and is appropriately disclosed as required under the continuous disclosure requirements of securities legislation. In essence, these types of controls are related to the quality and timeliness of financial and non-financial information in securities filings. ICFR provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. A control system, no matter how well designed, can provide only reasonable and not absolute assurance that the objectives of the control system are met. As a result of inherent limitation in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected.

The evaluations of DC&P and ICFR were performed using the COSO control framework (Sponsoring Organizations of the Treadway Commission control framework). Based on this evaluation, the CEO and CFO concluded that NPR's disclosure controls and procedures, as defined in Multilateral Instruments 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings, were effective and provided reasonable assurance that information required to be disclosed in reports that were filed or submitted under Canadian securities legislation related to NPR are recorded, processed, summarized and reported within the time periods specified in those rules and forms. The CEO and CFO also concluded that NPR's internal controls over financial reporting were operating effectively as at June 30, 2011 and provided reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external reporting in accordance with IFRS.

NPR has adopted IFRS effective January 1, 2010 ("the transition date") and has prepared its combined opening IFRS statement of financial position as at that date. Prior to adoption of IFRS, NPR prepared its combined financial statements in accordance with GAAP. NPR's combined financial statements for the year ended December 31, 2011 are the first annual financial statements that comply with IFRS. NPR has prepared its combined opening IFRS statement of financial position by applying existing IFRS with an effective date of December 31, 2010 or prior.

Management has implemented changes to its existing ICFR due to NPR's adoption of IFRS and the necessity to maintain an additional set of books for IFRS general ledger and fair value adjustments. Internal controls over the systems required to track IFRS adjustments are similar to those in effect for GAAP reporting and are continually evaluated to ensure they are operating effectively.

During the year ended December 31, 2011, NPR did not make any changes to disclosure controls and procedures or its internal controls over financial reporting that would materially affect the effectiveness of such controls. Management continually evaluates disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting. Based on this evaluation, the CEO and CFO have concluded that disclosure controls and procedures and internal controls over financial reporting are effective as at December 31, 2011. Management believes that the combined financial statements included in this report present fairly in all material respects the financial position, results of operations and cash flows for the periods presented. The presented information has been reviewed by the Disclosure Committee, the Audit Committee and the Board of Trustees, which approved it prior to its publication.

ADDITIONAL INFORMATION

NPR's offices are located at 110, 6131 – 6th Street SE, Calgary, Alberta, T2H 1L9.

Additional information relating to the REIT and NorSerCo, including the annual information return, is available on the REIT's website at www.npreit.com or on SEDAR at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Unit holders of Northern Property Real Estate Investment Trust and Shareholders of NorSerCo Inc:

The accompanying combined financial statements of Northern Property Real Estate Investment Trust and NorSerCo Inc. ("NPR") were prepared by management in accordance with the accounting policies in the notes to the financial statements. The Management of NPR is responsible for the integrity and objectivity of the information presented in the financial statements including the amounts based on estimates and judgments. The combined financial statements have been prepared by management in accordance with International Financial Reporting Standards appropriate in the circumstances. Financial information contained in Management's Discussion and Analysis is consistent with these combined financial statements.

To fulfill its responsibility, NPR maintains appropriate systems of internal control, policies and procedures to ensure that it's reporting practices and accounting and administrative procedures are of high quality. NPR's internal controls are designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Board of Trustees oversees management's responsibility for financial reporting through an Audit Committee which is comprised of three independent trustees. The Audit Committee reviews the combined financial statements and recommends them for approval to the Board of Trustees. The combined financial statements have been further reviewed by the Board of Trustees prior to their approval.

Deloitte & Touche LLP, the auditors appointed by the unitholders, has examined the combined financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the combined financial statements. Their report as auditors is set forth herein. The auditors have direct and full access to the Audit Committee to discuss their audit and related findings.

B. James Britton
President and Chief Executive Officer

David Leiman
Chief Financial Officer

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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Northern Property Real Estate Investment Trust and Shareholders of NorSerCo Inc.

We have audited the accompanying combined financial statements of Northern Property Real Estate Investment Trust and NorSerCo Inc., which comprise the combined statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the combined statements of income and comprehensive income, combined statements of changes in equity and combined statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and the notes to the combined financial statements.

Management's Responsibility for the combined Financial Statements
Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the combined financial statements present fairly, in all material respects, the financial position of Northern Property Real Estate Investment Trust and NorSerCo Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Calgary, Alberta
March 13, 2012

Chartered Accountants

NORTHERN PROPERTY REAL ESTATE INVESTMENT TRUST
NorSerCo Inc.
Combined Statement of Financial Position (Thousands of Canadian dollars)

	Note	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
ASSETS				
Non-current assets				
Investment properties	**6**	**1,043,485**	857,512	836,305
Property, plant and equipment	**7**	**67,611**	43,754	44,166
Other long term assets	**8**	**2,176**	2,399	968
Investment in joint ventures	**9**	**4,772**	4,615	4,674
Intangible assets	**10**	**2,421**	-	-
Loans receivable	**11**	**264**	279	371
Deferred taxes		**422**	440	-
		1,121,151	908,999	886,484
Current assets				
Cash		**2,670**	2,921	-
Term deposits and short term investments		**5,023**	4,087	3,555
Accounts receivable	**22**	**4,489**	2,884	3,878
Prepaid expenses and other assets	**12**	**2,694**	2,373	2,423
Assets held for sale	**6, 31**	**197,046**		

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NORTHERN PROPERTY REAL ESTATE INVESTMENT TRUST
NorSerCo Inc.
Combined Statements of Income and Comprehensive Income
Year ended December 31
(Thousands of Canadian dollars)

		Year ended December 31	
	Note	**2011**	2010
REVENUE FROM CONTINUING OPERATIONS			
Rental revenue		**135,891**	117,735
Other property income		**4,355**	3,922
		140,246	121,657
Operating expenses	**24**	**(55,170)**	(47,767)
		85,076	73,890
OTHER EXPENSES			
Mortgage interest		**(22,095)**	(20,276)
Depreciation and amortization		**(3,355)**	(2,486)
		(25,450)	(22,762)
EARNINGS FROM CONTINUING OPERATIONS BEFORE THE UNDERNOTED		**59,626**	51,128
Administration		**(7,379)**	(9,510)
Interest on operating facilities		**(622)**	(1,163)
Interest paid to unitholders	**13**	**(26)**	(14,324)
Interest and other income		**363**	280
Gain on sale of investment property		**-**	25
Equity in earnings of joint ventures	**9**	**462**	241
Business combination transaction costs	**5**	**(825)**	-
Unrealized fair value changes	**26**	**36,994**	(117,929)
INCOME (LOSS) BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS		**88,593**	(91,252)
INCOME TAX (EXPENSE) RECOVERY	**15**		
Current		**(427)**	(343)
Deferred		**(17)**	57,481
		(444)	57,138
NET AND COMPREHENSIVE INCOME (LOSS) FROM CONTINUING OPERATIONS		**88,149**	(34,114)
(Loss) income from discontinued operations	**31**	**(1,992)**	10,166
NET AND COMPREHENSIVE INCOME (LOSS)		**86,157**	(23,948)
Net and comprehensive income (loss) attributable to:			
Stapled unit holders		**85,896**	(24,281)
Non-controlling interest		**261**	333
Net and comprehensive income (loss)		**86,157**	(23,948)

See accompanying notes to the combined financial statements.

NORTHERN PROPERTY REAL ESTATE INVESTMENT TRUST
NorSerCo Inc.
Combined Statements of Changes in Equity
Year ended December 31
(Thousands of Canadian dollars)

	Note	Year ended December 31 2011	2010
STAPLED UNITS	**19**		
Balance, January 1		**696,887**	-
Reclassification of units from debt to equity	**13**	**-**	577,610
Exercise of unit options		**-**	8,667
Long term incentive plan units issued		**938**	2,618
Issuance of units		**58,357**	49,508
Issue costs		**(2,655)**	(2,505)
Conversion of LP units to REIT units on reorganization	**1, 19**	**-**	54,122
Special distribution	**1**	**-**	6,867
Balance, December 31		**753,527**	696,887
DEFICIT			
CUMULATIVE NET INCOME (DEFICIT)			
Balance, January 1		**(75,447)**	(51,166)
Net income (loss) attributable to stapled unit holders		**85,896**	(24,281)
Balance, December 31		**10,449**	(75,447)
CUMULATIVE DISTRIBUTIONS TO STAPLED UNIT HOLDERS			
Balance, January 1		**(31,414)**	-
Distributions declared to stapled unit holders		**(44,025)**	(24,547)
Special distribution	**1**	**-**	(6,867)
Balance, December 31		**(75,439)**	(31,414)
CUMULATIVE DEFICIT, December 31		**(64,990)**	(106,861)
EQUITY ATTRIBUTABLE TO STAPLED UNIT HOLDERS		**688,537**	590,026
NON-CONTROLLING INTERESTS	**20**		
Balance, January 1		**2,020**	1,873
Net income		**261**	333
Net distributions to non-controlling interests		**(166)**	(186)
Balance, December 31		**2,115**	2,020
TOTAL EQUITY		**690,652**	592,046

See accompanying notes to the combined financial statements.

NORTHERN PROPERTY REAL ESTATE INVESTMENT TRUST
NorSerCo Inc.
Combined Statements of Cash Flows
Year ended December 31
(Thousands of Canadian dollars)

	Note	2011	2010
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:			
OPERATING			
Net income and comprehensive income (loss)		**86,157**	(23,948)
Adjustments for:			
Deferred rental revenue		**(1,054)**	(1,223)
Tenant inducements		**175**	(1,024)
Depreciation and amortization		**3,355**	2,486
Interest expense		**28,599**	27,453
Interest expense to Class B unit holders		**26**	14,324
Interest paid		**(27,327)**	(25,962)
Distribution interest paid to unit holders		**(256)**	(17,180)
Deferred recoverable costs		**183**	(291)
Unrealized fair value changes	**26**	**(22,880)**	119,798
Equity in earnings of joint ventures		**(462)**	(241)
Unit based compensation		**862**	1,226
Income tax expense (recovery)		**444**	(57,138)
Income tax paid		**(34)**	(353)
		67,788	37,927
Changes in non-cash working capital	**27**	**122**	3,894
		67,910	41,821
FINANCING			
Proceeds from mortgages		**66,213**	30,454
Repayment of mortgages		**(43,886)**	(36,224)
Proceeds from operating facilities, net		**13,102**	(25,800)
Payments to non-controlling interest		**(167)**	(186)
Units issued under option plan		**-**	7,912
Proceeds from public offering (net of issue costs)		**55,702**	47,003
Distributions paid to stapled unit holders		**(43,533)**	(21,286)
		47,431	1,873
INVESTING			
Acquisition of investment properties	**6**	**(28,925)**	(11,489)
Capital improvements		**(28,225)**	(25,875)
Acquisition of properties, plant and equipment		**(1,713)**	(2,075)
Business combination	**5**	**(56,898)**	-
Proceeds from sale of investment properties		**-**	79
Acquisition of intangible assets	**10**	**(152)**	-
Advances from joint ventures		**321**	300
		(115,592)	(39,060)
NET INCREASE (DECREASE) IN CASH		**(251)**	4,634
(BANK INDEBTEDNESS) CASH, BEGINNING OF YEAR		**2,921**	(1,713)
CASH, END OF YEAR		**2,670**	2,921

See accompanying notes to the combined financial statements.

1. DESCRIPTION OF THE COMBINED ENTITIES

Northern Property Real Estate Investment Trust (the "REIT"), an unincorporated open-ended real estate investment trust and NorSerCo Inc. ("NorSerCo"), a corporation incorporated under the *Business Corporations Act* (Alberta) on October 18, 2010 are both domiciled in Canada. The REIT and NorSerCo are collectively referred to as "NPR" or the "Entities". NPR's registered office is located at 110, 6131 6th Street SE, Calgary, Alberta.

On December 31, 2010, NPR completed its internal reorganization pursuant to the Plan of Arrangement ("Arrangement") which was approved by unitholders at a special meeting held on November 25, 2010. The Arrangement was completed to ensure NPR meets the definition of a Real Estate Investment Trust as defined in the *Income Tax Act* (Canada) (the "Tax Act").

The Arrangement resulted in the following:

i. The creation of a taxable Alberta corporation, NorSerCo. NorSerCo operates the three wholly-owned execusuite properties under a lease arrangement with the REIT, whereby the REIT retains ownership of the real estate assets and leases the properties to NorSerCo under market commercial leases. Following the transaction, NorSerCo holds and operates the business assets which produce non-qualifying revenue as defined under the Tax Act. NorSerCo also holds the 50% interest in the execusuite operation in Inuvik, NWT;
ii. The Class B Limited Partnership units of Northern Property Limited Partnership were converted into trust units of the REIT ("REIT Units");
iii. The Common Shares of NorSerCo were distributed to all REIT unitholders on a 1:1 ratio. REIT Units and NorSerCo Common Shares trade together on the Toronto Stock Exchange ("TSX") as a "Stapled Unit" under the trading symbol NPR.UN; and
iv. The simplification of NPR's organization structure through the elimination and amalgamation of certain wholly owned subsidiaries.

These combined financial statements are a result of the completion of the REIT's internal reorganization on December 31, 2010, pursuant to the Arrangement that was approved by unitholders at a special meeting held on November 25, 2010. Each REIT unitholder received, for each REIT Unit held, a NorSerCo Common Share. Each issued and outstanding share of NorSerCo is stapled to a REIT unit on a one-for-one basis so as to form stapled units ("Stapled Units" or "Units") which are listed for trading on the TSX. The Stapled Units of the REIT and NorSerCo may only be transferred together as Stapled Units unless a "separation event" has occurred. A separation of the REIT Units and NorSerCo Common Shares can occur under either of the following: (a) the holders of REIT Units vote in favour of the unstapling of REIT Units and NorSerCo Common Shares; or (b) at the sole discretion of the trustees of the REIT or the directors of NorSerCo, upon an event of bankruptcy or insolvency of either the REIT or NorSerCo and/or their respective subsidiaries.

The presentation of the combined financial statements of the two entities is useful to stapled unit holders because of the following:

i. The REIT Units and the NorSerCo Common Shares are stapled together, resulting in the two entities being under common ownership;
ii. The sole activity of NorSerCo is to hold and operate the non-qualifying business assets which generate non-qualifying revenue as defined by the Tax Act, enabling the REIT to qualify under the REIT Exemption (the "Exemption") provisions applicable to publicly traded trusts; and
iii. The combined financial information represents financial statements in a similar format as previously reported in NPR's consolidated financial statements.

As a result of the Arrangement, NPR's financial statements are prepared on a combined basis as at December 31, 2010 and December 31, 2011. Prior to December 31, 2010, NorSerCo did not have any assets, liabilities, equity or transactions. Accordingly, the consolidated financial statements of the REIT, as previously reported, are presented as the combined financial statements for the dates and periods prior to December 31, 2010.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The combined financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and approved by the Accounting Standards Board ("AcSB"). NPR has adopted IFRS for the year ended December 31, 2011. These combined financial statements for the year ended December 31, 2011 have been prepared in accordance with IFRS and IFRS 1 – First-time Adoption of International Financial Reporting Standards has been applied ("IFRS 1"). The Entities applied IFRS 1 as at January 1, 2010 (the "Transition Date").

NPR's combined financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP" or "GAAP") until December 31, 2010. In preparing the Entities' combined financial statements for the year ended December 31, 2011, management has recorded transition adjustments when applying IFRS. Note 33 presents reconciliations of equity and profit or loss for comparative periods reported under Canadian GAAP to those reported for those periods under IFRS. Reconciliations, descriptions and explanations of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Entities are provided in Note 33. IFRS also requires management to exercise judgment in the process of applying NPR's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the combined financial statements are disclosed in Note 3. The policies set out below have been consistently applied to all the periods presented.

The combined financial statements were authorized for release by the trustees of Northern Property Real Estate Investment Trust and the Board of Directors of NorSerCo Inc. (the "Trustees") on March 13, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement
These combined financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is usually the fair value measurement of consideration given in exchange for assets.

Basis of presentation
The preparation of these financial statements is based on accounting policies and practices in accordance with IFRS and should not be compared to those used in the preparation of the prior years' audited annual combined financial statements, as those financial statements were prepared under accounting policies and practices in accordance with Canadian GAAP. These combined financial statements have been prepared on a going concern basis and are presented in Canadian dollars rounded to the nearest thousand. The accounting policies set out below have been applied consistently to all periods presented in these combined financial statements. These financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the respective years presented.

Principles of combination
The REIT and NorSerCo share common management and most trustees and directors. All the trustees of the REIT are directors of NorSerCo; NorSerCo has one independent director who is not a trustee of the REIT. The two entities share common management, employees, information technology and other systems and policies, procedures and processes. NorSerCo was incorporated to hold and operate those assets whose activities generate revenue not qualifying under the Tax Act for the real estate investment trust exemption.

The principles used to prepare combined financial statements are similar to those used to prepare consolidated financial statements. The combined financial statements include the assets, liabilities and equity of the REIT and NorSerCo. NorSerCo did not have any transactions in 2010 other than the initial transaction as described in note 1. NorSerCo did not have any assets, liabilities, equity or transactions prior to December 31, 2010. The combination of the two entities does not result in the elimination of the equity of NorSerCo as the REIT does not hold any interest in NorSerCo. The equity reported in these combined financial statements will be presented by way of combining the two entities together.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these combined financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Intercompany transactions between the REIT and NorSerCo are eliminated in the same manner as intercompany transactions in consolidated financial statements. The creation of NorSerCo resulted in a reclassification within equity for the issuance of NorSerCo Common Shares, being an increase of $6.9 million in Units equal to the special distribution in the cumulative deficit to unitholders reported by the REIT for the distribution of the NorSerCo Common Shares to the unitholders of the REIT.

Principles of consolidation
These combined financial statements include the accounts of the REIT, NorSerCo and their subsidiaries, partially owned partnerships and joint ventures, collectively NPR. Subsidiaries are entities controlled by NPR. The financial statements of subsidiaries are included in the combined financial statements to the date that control ceases. The accounting policies of subsidiaries, partially owned partnerships and joint ventures are the same as those of the Entities. NPR has no controlling entity.

Use of estimates
The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The following discussion sets forth management's:

- most critical estimates and assumptions in determining the value of assets and liabilities; and
- most critical judgments in applying accounting policies. The preparation of the combined financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Critical accounting estimates and key assumptions
Values of investment properties
NPR carries its investment properties at fair value. While investment properties are recorded at fair value on a quarterly basis, not every property is independently appraised every year. Significant judgment is applied in arriving at these fair values, particularly as many of the properties are in smaller communities with limited trading activity. Changes in the fair value of the investment properties affect comprehensive income.

Values of property, plant and equipment ("PP&E")
Property, plant and equipment includes assets that are held in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one period. Income properties classified in PP&E include the execusuites and hotels which are owned by the REIT and operated by NorSerCo. NPR accounts for its property, plant and equipment under the cost model whereby the assets are initially recorded at cost and subsequently depreciated over their useful lives. NPR has elected to treat the fair value of PP&E at the date of transition as the deemed cost for IFRS. Subsequent to recognition as an asset, an item of PP&E accounted for under the cost model is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Accrued liabilities
Entities must estimate accrued liabilities when invoices have not been received in order to ensure all expenditures have been recognized. If future expenditures differ from estimates, future earnings would be affected.

Capital adequacy
NPR prepares estimated cash flow projections on a regular basis to ensure there will be adequate liquidity to maintain operating, capital and investment activities in addition to making monthly distributions to stapled unit holders and uses these estimates to assess capital adequacy. The Trustees review the current financial results and the annual business plan in determining appropriate capital adequacy and use this to determine distribution levels. Changes in these estimates affect distributions to stapled unit holders and the Entities' cost of capital, which in turn affects earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for doubtful accounts
NPR must make an assessment of whether accounts receivable are collectible from tenants. Accordingly, management establishes an allowance for estimated losses arising from non-payment, taking into consideration customer credit worthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected.

Critical judgments in applying accounting policies
Stapled units
Prior to May 11, 2010, the REIT's Declaration of Trust ("DOT") included the requirement that on the last day of the year, an amount equal to the net income of the Trust for such Taxation Year, determined in accordance with the Tax Act and excluding net realized capital gains, not previously made payable to Unitholders in the Taxation Year, less the amount of any non-capital losses, as defined in the Tax Act, of the Trust carried forward, shall be automatically payable to Unitholders at the close of business on such day. This feature indicates that the units have a fixed payment requirement and implies that NPR's Trust Units be classified as debt rather than equity. Therefore, at transition to IFRS, NPR is required to report its Trust Units and Northern Property Limited Partnership ("NPLP") Class B Units as financial liabilities rather than as equity in accordance with the substance of the contractual arrangement under IAS 32 - Financial Instruments: Presentation ("IAS 32") because of this requirement. As a result of the amendments to the DOT approved at the May 11, 2010 Annual General Meeting, the Trustees have discretion to determine the amounts of distributions to the unit holders; and, therefore, after that date, the Trust Units are classified as equity. The ability to exchange NPLP Class B Units for Trust Units implies a liability element exists because it imposes an unavoidable obligation to deliver units of the trust (i.e., a financial instrument of another entity). Therefore, the NPLP Class B units continued to be classified as financial liabilities until the December 31, 2010 internal reorganization.

The equity classification of the NPR Trust Units is an exemption to the classification of the units as a liability under IAS 32 and is restricted to the accounting for such instruments under IAS 1 – Presentation of Financial Statements ("IAS 1"), IAS 32, IFRS 9 – Financial Instruments: Recognition and Measurement ("IFRS 9") and IFRS 7 – Financial Instruments: Disclosure ("IFRS 7"). The Trust Units are not considered equity under other guidance such as IFRS 2 – Share based Payments ("IFRS 2"). As IAS 33 – Earnings per Share ("EPS") is not mentioned in the list of standards to which the exemption applies, no EPS figures need to be presented in these combined financial statements.

NPR Limited Partnership Class B Units ("NPRLP") and NorSerCo Special Shares have the ability to exchange for stapled units which implies a liability element exists because it imposes an unavoidable obligation to deliver stapled units of the Entities (i.e., a financial instrument of another entity). Therefore, the NPRLP Class B Units and NorSerCo Special Shares are classified as financial liabilities.

Purchase of investment properties
NPR reviews its purchases of investment property to determine whether or not the purchase is part of a business combination as IFRS requires differing treatment of property acquisitions depending on whether or not the purchase is part of a business combination. Judgment is involved in determining whether or not a purchase forms part of a business combination or an asset acquisition. Should the purchase form part of a business combination, closing costs, such as appraisal and legal fees are expensed immediately and earnings are affected. If the purchase is an asset acquisition, these costs form part of the purchase price and earnings are not immediately affected.

Investment in joint ventures
Interests in joint ventures
Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. NPR reports its interests in jointly controlled entities using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the combined statement of financial position at cost as adjusted for NPR's proportionate share of post acquisition changes in the net assets of the joint ventures, or for post acquisition changes in any excess of NPR's carrying amount over the net assets of the joint ventures, less any identified impairment loss. When NPR's share of losses of a joint venture equals or exceeds its interest in that joint venture, NPR discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that NPR has incurred legal or constructive obligations to fund the entity or made payments on behalf of that entity.

Where a group entity transacts with a joint venture of NPR, profits and losses are eliminated to the extent of the Entities' interest in the relevant joint venture. Balances outstanding between NPR and jointly controlled entities are not eliminated in the combined statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries and associates
Subsidiaries and associates are consolidated when NPR has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. Subsidiary accounting policies are consistent with those of NPR and reporting dates are the same as NPR. The subsidiary financial statements are combined line by line, adding assets, liabilities, equity, revenue and expenses of similar types. Intercompany balances, transactions, income and expense are eliminated and gains or losses on intercompany transactions are eliminated. Where NPR does not own 100% of the subsidiary or associate, non controlling interest is classified as a component of equity.

Investment properties
NPR's investment properties include residential and commercial properties held to earn rental income, held for capital appreciation or for both and properties that are being constructed or developed for future use as investment properties. NPR has adopted IAS 40: Investment Property ("IAS 40"), and has selected the fair value method of presenting its investment properties in these financial statements. NPR reviews the fair value of its investment property each reporting period and revises the carrying value when market circumstances change the underlying variables used to fair value the property occur. The fair value of investment property is the amount that the property should exchange at between a willing buyer and a willing seller in an arm's length transaction. Investment properties are measured initially at cost, including transaction costs, unless the acquisition is part of a business combination. Subsequent to initial recognition, investment properties are measured at fair value.

Investment property consists of several separate components which are included in the estimation of fair value for each property. Residential investment property includes prepaid land equity leases ranging in terms from 15 to 30 years, asset acquisition costs, furniture and fixtures, and sustaining CAPEX. Sustaining CAPEX represents ongoing expenditures required to maintain the productive capacity of the REIT's portfolio. In addition, commercial investment property includes above and below market leases, in-place leases, prepaid tenant improvements and indirect leasing costs. Tenant inducements include cash payments made to tenants where no specific obligation exists on how the payment is utilized by the tenant. Tenant inducements are considered in the cash inflows modeled to measure the fair value of a commercial investment property; the lease incentive asset is separated on the statement of financial position by deducting this amount from the fair value of the property to avoid double counting of assets.

Management utilizes a combined external valuation by independent appraisers and internal calculation approach to fair value its investment properties. Investment properties are segregated into the following categories: apartments, townhouses, duplexes, single family, seniors, mixed use, commercial (retail and warehouse) and administrative. Administrative properties including office and warehouse facilities utilized by NPR, staff residential accommodations, and execusuites and hotels are reported as property, plant and equipment. The fair value of investment property is based on valuations by a combination of independent appraisers and management estimates including any capital additions since the date of the most recent appraisal. External appraisals of investment property are performed throughout each year, on a rotating basis and continue to be used to verify certain variables used in the internal calculation of investment property values. Management relies on the external investment property appraisals to verify its assessment of regional vacancy, management overhead and Capitalization Rate ("Cap Rate") information which is then applied to the stabilized net operating income to calculate the fair value of the remainder of NPR's investment properties. Where increases or decreases are warranted, NPR adjusts the fair value of its investment properties. Unrealized gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Investment properties are reclassified to Assets held for sale when criteria in IFRS 5: Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5") are met. Any gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of investment properties under development includes direct development costs, insurance, realty taxes and borrowing costs directly attributable to the development. Borrowing costs associated with direct expenditures on investment properties under development or re-development are capitalized. Borrowing costs are also capitalized on the purchase cost of a site or property acquired specifically for redevelopment in the short-term but only where activities necessary to prepare the asset for development or redevelopment are in progress. The amount of borrowing costs capitalized is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross cost incurred on those borrowings less any investment income arising on their temporary investment. Borrowing costs are capitalized from the commencement of the development until the date of practical completion, normally the receipt of an occupancy permit. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. NPR considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally this occurs upon completion of construction and receipt of all necessary occupancy and other material permits. Where NPR has pre-leased space as of or prior to the start of the development and the lease requires NPR to construct tenant improvements which enhance the value of the property, practical completion is considered to occur on completion of such improvements.

Capital improvements are capital repairs or additions, improvements to the properties to meet investment requirements and expenditures made in the 18 months following the acquisition of a property to complete any deferred maintenance.

Sustaining CAPEX represents ongoing expenditures required to maintain the productive capacity of the REIT's portfolio. These include capital expenditures to maintain and renew common areas, heating ventilating and air conditioning ("HVAC") systems, building envelopes, investment in wood pellet boilers, expenditures to reduce energy consumption and to refurbish interior finishes in units on tenant turnover.

Asset acquisition / Business combination
Investment properties under IAS 40 consist of residential and commercial properties held to earn rental income and properties that are being constructed, developed, or redeveloped for future use as investment properties. Management must assess whether the acquisition of property, through the purchase of a corporate vehicle or directly, should be accounted for as an asset purchase or a business combination. Where the acquisition contains significant assets, liabilities or activities in addition to property and related mortgage debt, particularly where there is an integrated set of activities and assets, capable of being conducted and managed for the purpose of providing a return, lower costs or other economic benefits, the transaction is accounted for as a business combination. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided. Where there are no such integrated activities, the transaction is treated as an asset acquisition.

Residential and commercial properties, developments and redevelopments are measured initially at cost. Cost includes all amounts relating to the acquisition, including transaction costs, (except transaction costs related to a business combination) and improvement of the properties. All costs associated with upgrading and extending the economic life of the existing facilities, other than ordinary repairs and maintenance, are capitalized as investment property. Costs that are directly attributable to investment properties under development or redevelopment are capitalized. These costs include direct development costs, realty taxes and borrowing costs directly attributable to the development.

Property, plant and equipment
Land and buildings used by NPR as administrative offices, warehouse properties, staff residential accommodations as well as the execusuites and hotels are classified as property, plant and equipment as required by IAS 16 – Property, Plant and Equipment. PP&E is initially measured using the cost model. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequently, each remaining class of PP&E reported on the statement of financial position is measured and carried at cost less accumulated depreciation and recognized impairment losses. Other PP&E includes automotive equipment, computer equipment, furniture, fixtures and equipment and other assets that are expected to be used during more than one reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment are recorded at cost and depreciated using the following annual rates and methods:

Buildings	maximum 50 years	straight-line basis
Parking lot	20 years	straight-line basis
Roof	15 years	straight-line basis
Heating, ventilating and air conditioning	15 years	straight-line basis
CAPEX	5 years	straight-line basis
Furniture, fixtures and equipment	5 years	straight-line basis
Automotive	5 years	straight-line basis
Computer	4 years	straight-line basis

The cost initially recognized with respect to a building is further allocated amongst its significant component parts with each part being depreciated separately. NPR has identified the significant components of a building to be the roof, HVAC, and CAPEX which is defined as interior finishing including wallpaper, paint, flooring or carpeting, cabinets and bathroom fixtures. The method of depreciation, estimated economic lives of tangible assets and PP&E are evaluated annually by management and any changes in these estimates are accounted for on a prospective basis in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8").
Gains and losses on disposal of an item of PP&E are determined by comparing the proceeds from disposal with the carrying amount of PP&E, and are recognized net within expenses and other income in profit or loss.

Transfers between investment properly and property, plant and equipment
NPR experiences monthly changes in staff rental accommodations due to move-ins, move-outs and transfers between residential units. The estimated cost that would be incurred to implement the internal processes required to track and value these transfers between Investment Property and PP&E significantly exceed the benefits provided to users of these financial statements. Since staffing levels and internally used space do not change materially on a monthly basis, NPR does not revise these allocations unless a significant change in the number of units or square footage occupied occurs.

Property transfers from investment property to property, plant and equipment are transferred at the fair value of the asset at the time of transfer. Changes in the fair value are recorded in income.

Property transfers from property, plant and equipment to investment property are transferred at the fair value of the asset at the time of transfer. Changes in the fair value are recorded in other comprehensive income.

Other long term assets
Other assets consist primarily of deferred rent receivables arising from the recognition of rental revenue on a straight line basis over the lease term in accordance with IAS 17 - Leases ("IAS 17") and other receivables from tenants for capital improvements. The other receivables are amortized to net operating income at the same amount as is being recovered from tenants and are included in the calculation of annual recoverable operating costs.

Intangible assets
Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the intangible assets' estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with finite useful lives are recorded at cost less accumulated amortization. Amortization is recorded over the assets estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Intangible assets include a non-compete clause arising on business combination amortized straight-line over its expected useful life of five years and computer software amortized straight-line over its expected useful life of four years

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Amounts related to the disposal of non-current assets are classified as held for sale, and the results of operations and cash flows associated with the assets disposed are reported separately as assets held for sale or discontinued operations, less applicable income taxes. A non-current asset is classified as an asset held for sale at the point in time when it is available for immediate sale, management has committed to a plan to sell the asset and is actively seeking a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and is expected to be completed within a one-year period. For unsolicited interest in a non-current asset, the asset is classified as held for sale only if all the conditions of the purchase and sale agreement have been met, a sufficient purchaser deposit has been received and the sale is probable and expected to be completed shortly after the end of the current period.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and
(a) represents a separate major line of business or geographical area of operations,
(b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or
(c) is a subsidiary acquired exclusively with a view to resale.

The component will have been a cash-generating unit or group of cash-generating units while being held for use. Profits and gains or losses generated from the disposal of discontinued operations are measured based on fair value less cost to sell, except for investment property which is valued at fair value, or at the time of disposal of the assets and are presented in the financial statements on an after tax basis in accordance with IFRS 5. Comparative figures are restated to reflect retrospective application of discontinued operations.

Financial instruments

Financial assets and financial liabilities are recognized when NPR becomes a party to the contractual provisions of the instrument. All 'regular way' purchases or sales of financial assets are recognized and derecognized on a trade date basis. Financial assets and financial liabilities are initially recognized at fair value in accordance with IFRS 9 and are subsequently accounted for based on their classification as described below. IFRS 9 simplifies accounting for financial assets by replacing the multiple measurement categories in IAS 39 with a single principle based approach to classification. Where NPR's objective is to hold the financial asset to collect the contractual cash flows (Accounts receivable, Term deposits and short term investments, Loan receivable), the financial assets are measured at amortized cost. Financial assets are classified as fair value through profit or loss ("FVTPL") when they do not meet the following criteria; i) the financial asset is not held to collect a contractual cash flow, ii) the payments received are not solely principal and interest on the amount of principal outstanding. NPR would derecognize a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Financial instruments that are subsequently measured at amortized cost are subject to testing for impairment each reporting period.

Financial liabilities are measured at fair value minus transaction costs directly attributable to the issue of the financial liability when the liability is not recorded at FVTPL. A hierarchical method is used to measure fair value: a) active market with quoted prices; b) no active market - requiring valuation techniques: recent market transactions, discounted cash flow, reference to a similar transaction; c) no active market - equity instruments: cost less impairment may be used if no reliable estimate of fair value can be made. All other financial liabilities are carried at amortized cost. NPR would derecognize a financial liability when its obligations are discharged, cancelled or expire. Any difference between the amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and measurement of financial assets and liabilities under IFRS 9:

Financial asset or financial liability	Measurement
Financial assets	
Current financial assets	
Accounts receivable	Amortized cost
Loan receivable	Amortized cost
Term deposits and short term investments	Amortized cost
Cash	FVTPL
Financial liabilities	
Non-current financial liabilities	
Mortgages	Amortized cost
Current financial liabilities	
Distributions payable	Amortized cost
Trade and other payables	Amortized cost
Unit based payments	FVTPL
Forward utility contracts	FVTPL
Bank indebtedness	Amortized cost
Operating facilities	Amortized cost

Cash is comprised of cash balances and all deposits used in operations. Bank indebtedness repayable on demand and forming an integral part of NPR's cash management are included as a component of cash for the purpose of the statement of cash flows. Distributions or dividends payable declared on REIT Units or NorSerCo common shares with a record date of or prior to NPR's reporting date are recorded as a financial liability.

Derivative instruments are recorded in the combined statement of financial position at fair value, including those derivatives that are embedded in financial or non-financial contracts and which are not closely related to the host contract.

Distributions and dividends
Stapled unit holders at the close of business on each Distribution Record Date, (the last day of the month) are entitled to receive distributions from the REIT as declared by the Trustees for such month. The distributions are accrued and will be paid on the Distribution Date (usually the 15th of the following month). Where the Trustees determine that the REIT does not have sufficient cash to pay distributions, the payment may, at the Trustees discretion, include the issuance of additional units.

Stapled unit holders of NorSerCo are entitled to receive dividends as determined and declared by the Board of Directors.

Distributions declared to NPRLP Class B Unit holders and NorCerCo Special shareholders are classified as interest for reporting purposes because the units and shares are treated as financial liabilities in accordance with IAS 32.

Impairment
Significant assumptions are used in the assessment of fair value and impairment including estimates of future operating cash flows, the time period over which they will occur, an appropriate discount rate and appropriate growth rates. Impairments are recorded on assets not carried at fair value when the recoverable amounts of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration.

Financial assets
Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to NPR on terms that NPR would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets
The carrying amounts of NPR's non-financial assets, other than investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Property, plant and equipment and other long-term assets carried at cost are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. When such a determination is made, recoverability is measured by a comparison of the carrying amount of the asset to the estimated discounted future cash flows expected to be generated by the asset. An impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. NPR estimates fair value based upon current prices for similar assets.

Finance cost and finance income
Interest earned from financial assets is recognized by applying the effective interest rate to the principal outstanding when it is probable that economic benefits will flow to NPR.

Mortgage interest and interest on operating facilities is recognized by applying the effective interest rate to the principal outstanding.

Income taxes
NPR is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the DOT, the Trustees may, at their sole discretion, determine distributions or designate all taxable income earned; including the taxable part of net realized capital gains, to stapled unit holders and will deduct such distributions and designations for income tax purposes. Subsequent to completion of the Arrangement on December 31, 2010 (Note 1), the REIT meets the definition of a Real Estate Investment Trust under the Tax Act and is not subject to entity level income taxation. NorSerCo is incorporated under the Business Corporations Act of Alberta, is subject to entity level income taxation and is taxed as a "corporation" for income tax purposes. The directors of NorSerCo may declare dividends to the shareholders of NorSerCo which the Directors in their discretion determine to be appropriate.

NPR follows the liability method for determining deferred income taxes. Under this method, deferred taxes are recognized on temporary differences between the carrying values of assets and liabilities in the combined financial statements and the corresponding tax carrying values for the same assets and liabilities. Deferred tax assets are recognized for all deductible temporary differences to the extent it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax liabilities are not recognized for the temporary differences from investments in all subsidiaries and interests in joint ventures to the extent that: i) NPR is able to control the timing of the reversal of the temporary difference, and ii) the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured based on enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which these temporary differences are expected to reverse, and adjustments are recognized in earnings as they occur. Any deferred income tax liabilities will relate to tax and accounting base differences in the assets and liabilities of NorSerCo.

During 2010, all the earnings net of distributions to unitholders were subject to entity level income taxation. Subsequent to completion of its internal reorganization on December 31, 2010, the REIT meets the definition of a Real Estate Investment Trust under the Tax Act and is not subject to entity level income taxation. During 2011, only the earnings of NorSerCo are subject to entity level income taxation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition
Revenue from a rental property is recognized when a tenant commences occupancy of a property and rent is due. NPR retains all benefits and risk of ownership of its rental properties, and therefore, accounts for leases with its tenants as operating leases. Rental revenue includes rent and other sundry revenue recoveries. Rental revenue to be received from leases with rental rates varying over the term of the lease is recorded on a straight-line basis over the term of the associated lease. Accordingly the difference between the rental revenue recorded on a straight line basis and the rent that is contractually due from the tenant has been recorded as deferred rent receivable for accounting purposes.

Operational cost recoveries ("OCR") for commercial tenants and on selected residential leases are accrued monthly on a leased square footage or unit basis based on budgeted operating costs. Operating costs are verified annually, usually within 90 days after year end, tenant accounts are reconciled and additional amounts are either invoiced or rebated.

Tenant inducements are recorded as other long-term assets and charged against revenue on a straight-line basis over the lease term.

Ancillary income
Ancillary income is comprised of laundry machine income, telephone, cable and internet income and is recorded as earned.

Gains or losses from sale of investment property or property, plant and equipment
Gains or losses from the sale of investment property or PP&E are recognized when title is passed to the purchaser at the closing of the transaction when all or substantially all of the funds have been received, are receivable and all conditions of the sale have been met.

Interest income
Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to NPR and the amount can be reasonably measured. Interest is accrued over the period it is earned based on the effective interest rate applicable and is included in interest and other income on the combined statement of net and comprehensive income.

Unit based payments
Under NPR's Unit Option Plan (the "Option Plan"), options to acquire stapled units are granted to trustees, directors, officers and employees from time to time at exercise prices not less than the five day average market value of the units at the date of the grant. Options granted by NPR are accounted for in accordance with the fair-value method of accounting for unit based compensation, and as such, the calculated fair value of the option is recognized as compensation expense with an offsetting amount recorded to unit based payments, based on an estimate of the fair value using a Black-Scholes option-pricing model. NPR records compensation expense and unit based payments based on the grant date fair values over their vesting periods, less an estimated forfeiture rate. The estimated forfeiture rate is based on the historical forfeiture rate. As options vest or are forfeited, this estimate is adjusted to actual over the vesting period. Upon expiration of an option, or in the event an option is otherwise terminated for any reason, without having been exercised in full, the number of stapled units in respect of the expired or terminated option will again be available for the purposes of the Option Plan.

Upon exercise of the options, consideration paid, which approximates the market value of the stapled units on grant date, is credited to capital. In addition unit based payments, representing the calculated fair value of the options exercised, are reclassified to capital.

NPR also issues units to officers and employees under a Long-Term Incentive Plan ("LTIP"). Under this plan, the fair value of the units granted to officers and employees is recognized as compensation expense with an offsetting amount to unit based payments based on the market price at the time of vesting. NPR records compensation expense and unit based payments based on the fair values of the units over the vesting period, less an estimated forfeiture rate. The estimated forfeiture rate is based on the historical forfeiture rate. As units are forfeited or issued, this estimate is adjusted to actual over the vesting period. The liability is adjusted to reflect the change in the fair value of the units at the end of each period, with an offsetting adjustment to compensation expense.

Upon issue, the market value of the units is credited to capital with a corresponding reduction to unit based payments.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Future Accounting Changes

IFRS 9 – Financial instruments – classification and measurement

The IASB released IFRS 9 in October 2009 as the first step in replacing IAS 39 – Financial Instruments: Recognition and Measurement. It was amended in October 2010 to include financial liabilities, most of which were carried forward unchanged from IAS 39. IFRS 9 is based on how an entity manages its financial instruments in the context of its business model, the contractual cash flow characteristics of the financial assets and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. In December 2011, the IASB amended IFRS 9 to require application for annual periods beginning on or after January 1, 2015 and not to require restatement of comparative period financial statements upon initial application. NPR has early adopted this standard.

IFRS 10 – Consolidated Financial Statements

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It eliminates the risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity. IFRS 10 supersedes IAS 27 – Consolidated and Separate Financial Statements and SIC - 12 Consolidation – Special Purpose Entities and is effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted. NPR is evaluating the impact of this standard on its combined financial statements.

IFRS 11 – Joint Ventures ("IFRS 11") and IAS 28 – Investment in Associates ("IAS 28")

IAS 28 which was amended in 2011 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. IFRS 11 and IAS 28 are effective for annual periods beginning on or after January 1, 2013. NPR currently accounts for its joint ventures using the equity method and does not expect IFRS 11 and IAS 28 to have an impact on its combined financial statements.

IFRS 12 – Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. Disclosure of information that will assist financial statement users evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements is required. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted. NPR is evaluating the impact of this standard on its combined financial statements.

IFRS 13 - Fair Value Measurement ("IFRS 13")

IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements except in specified circumstances. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted. NPR is evaluating the impact of this standard on its combined financial statements.

IAS 1 – Presentation of Financial Statements

On June 16, 2011, the IASB released amendments to IAS 1 related primarily to the presentation of Other Comprehensive Income. The changes are effective for annual periods beginning on or after July 1, 2012, early adoption permitted. NPR does not expect the amendments to IAS 1 to have a significant impact on its combined financial statements.

IAS 19 – Employee Benefits ("IAS 19")

The amendments to IAS 19 relate to defined benefit assets and liabilities and related disclosures and to the accounting for termination benefits, as well as miscellaneous other matters. The changes to IAS 19 are effective on a modified retrospective basis for annual periods beginning on or after January 1, 2013, early adoption permitted. NPR does not expect the amendments to IAS 19 to have a significant impact on its combined financial statements.

5. BUSINESS COMBINATION

Between April 15 and September 30, 2011 NPR acquired a portfolio of properties in Iqaluit, Nunavut as part of a business combination. NPR purchased assets as described below:

	Unit Count / Sq Ft	Assets Acquired
Multi-family residential investment property	**159**	**33,138**
Commercial property	**32,000**	**13,389**
Investment property improvements		**3,730**
Land held for future development		**3,993**
Property, plant and equipment	**120**	**22,484**
Non-competition agreement (intangible asset)		**2,521**
Assets acquired	**279 / 32,000**	**79,255**
Mortgage funding		**22,357**
Cash Paid		**56,898**
		79,255

The properties were acquired as part of NPR's ongoing investment program to secure quality assets, the income from which provides distributions to stapled unit holders.

Consistent with NPR's acquisition policy, assets were purchased rather than shares. Included in the assets was a non-competition agreement with the vendors. Given the large portfolio of assets acquired in a single city, including a variety of properties under development, NPR paid for a non-compete clause to ensure the vendor would not continue to develop properties in the city.

During the course of the negotiations, a fire destroyed one of the properties. The vendor is required to replace the burned building. NPR has undertaken to rebuild the 29 unit building, replacing it with a 39 unit apartment building. The vendor is responsible to fund the reconstruction. The REIT received $5.25 million towards the reconstruction during the year ended December 31, 2011.

Acquisition costs of $825,000 have been expensed.

Included in the profit for the year ended December 31, 2011 is $1.5 million attributable to the additional rental income generated from the acquired properties. Revenue for the year includes $7.4 million in respect of the acquired properties.

Had these properties been acquired at January 1, 2011, the revenue of these properties would have been $11.5 million, and the profit for the year would have been $4.6 million. Management considers these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualized basis and to provide a reference point for comparison in future periods

6. INVESTMENT PROPERTIES

	December 31, 2011	December 31, 2010	January 1, 2010
Investment properties	**1,030,931**	851,739	829,327
Investment properties under development	**12,554**	5,773	6,978
Balance, end of year	**1,043,485**	857,512	836,305

6. INVESTMENT PROPERTIES (continued)

Changes to investment properties for the years:

	December 31, 2011	December 31, 2010
Balance at January 1	**857,512**	836,305
Acquisitions	**70,174**	28,058
Business combination (Note 5)	**54,250**	-
Disposals	**-**	(53)
Transfers to PP&E	**(2,894)**	-
Property improvements	**26,996**	24,237
Unrealized fair value changes	**37,447**	(31,035)
Balance, end of year	**1,043,485**	857,512

As discussed in Note 3, NPR uses the Cap Rate method to value investment properties. As at December 31, 2011, Cap Rates ranging from 6.3% - 13.5% (December 31, 2010 – 6.3% - 13.5%) were applied to a projected stabilized net operating income. The weighted average Cap Rate applied to fair value NPR's investment properties as at December 31, 2011 is 8.1% (December 31, 2010 – 8.8%).

Included in investment properties is one property (2010 – one) with a carrying value of $1,490,000 (2010 - $1,490,000) on which the tenant has a purchase option exercisable in 2014.

Acquisitions for the twelve months ended December 31, 2011 were financed as follows:

		Unit Count / Sq Ft	Region	Total Acquisition Costs	Mortgage Funding	Cash Paid	Class B LP Units Issued
November 24, 2011	Multi-family	**240**	**Saskatoon**	**19,818**	**15,749**	**4,069**	**-**
November 15, 2011	Multi-family	**33**	**Courtenay**	**2,413**	**1,377**	**1,036**	**-**
October 1, 2011	Multi-family	**53**	**Labrador**	**4,047**	**-**	**2,047**	**2,000**
July 30, 2011	Multi-family	**21**	**Fort St John**	**1,326**	**708**	**618**	**-**
July 15, 2011	Multi-family	**63**	**Nanaimo**	**7,615**	**-**	**7,615**	**-**
July 14, 2011	Multi-family	**20**	**Fort St John**	**1,287**	**-**	**1,287**	**-**
April 15, 2011	Commercial	**65,230**	**St. John's**	**4,740**	**2,716**	**2,024**	**-**
March 31, 2011	Multi-family	**151**	**Nanaimo**	**11,777**	**7,500**	**4,277**	**-**
February 15, 2011	Multi-family	**230**	**Jasper**	**17,144**	**11,199**	**5,945**	**-**
	Other			**7**	**-**	**7**	**-**
		811 / 65,230		**70,174**	**39,249**	**28,925**	**2,000**

6. INVESTMENT PROPERTIES (continued)

Acquisitions for the twelve months ended December 31, 2010 were financed as follows:

		Unit Count / Sq Ft	Region	Total Acquisition Costs	Mortgage Funding	Cash Paid	Class B LP Units Issued
November 1, 2010	Multi-family	50	Yellowknife	11,665	6,995	4,670	-
October 22, 2010	Multi-family	32	Nanaimo	2,739	1,254	1,485	-
July 1, 2010	Seniors	14	Torbay	903	-	903	-
April 26, 2010	Multi-family	80	St. Paul	5,877	4,069	1,808	-
April 1, 2010	Multi-family	100	Yellowknife	7,777	5,154	2,623	-
		276		28,961	17,472	11,489	-

As of December 31, 2011, seniors' properties have been reclassified from investment property to current assets as 'Assets held for sale' and have been fair valued at $190.5 million. The July 1, 2010 acquisition of a seniors' property for $0.9 million was reclassified from 'Acquisitions' in changes to investment properties to 'Assets held for sale' for the year ended December 31, 2010. The associated mortgages in the amount of $95.1 million have been reclassified from mortgages payable to 'Liabilities related to assets held for sale'. The revenue, expense and comprehensive earnings for these properties are reported in discontinued operations.

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Furniture & Fixtures	Automotive	Computer Equipment	Other Assets	Total
Cost or deemed cost							
Balance at January 1, 2010	1,957	40,134	919	1,363	1,277	728	46,378
Additions for the year	4	1,354	-	399	269	65	2,091
Disposals for the year	-	-	(16)	(42)	-	-	(58)
Balance at December 31, 2010	1,961	41,488	903	1,720	1,546	793	48,411
Additions for the year	**51**	**3,626**	**266**	**321**	**70**	**145**	**4,479**
Business combination (Note 5)	**-**	**21,203**	**863**	**143**	**-**	**275**	**22,484**
Disposals for the year	**-**	**-**	**-**	**(63)**	**(10)**	**(6)**	**(79)**
Balance at December 31, 2011	**2,012**	**66,317**	**2,032**	**2,121**	**1,606**	**1,207**	**75,295**
Accumulated depreciation							
Balance at January 1, 2010	-	-	-	737	879	596	2,212
Depreciation for the year	-	1,703	184	258	273	68	2,486
Disposals for the year	-	-	-	(41)	-	-	(41)
Balance at December 31, 2010	-	1,703	184	954	1,152	664	4,657
Depreciation for the year	**-**	**2,312**	**313**	**253**	**153**	**72**	**3,103**
Disposals for the year	**-**	**-**	**-**	**(62)**	**(10)**	**(4)**	**(76)**
Balance at December 31, 2011	**-**	**4,015**	**497**	**1,145**	**1,295**	**732**	**7,684**
Carrying amounts							
At January 1, 2010	1,957	40,134	919	626	398	132	44,166
At December 31, 2010	1,961	39,785	719	766	394	129	43,754
At December 31, 2011	**2,012**	**62,302**	**1,535**	**976**	**311**	**475**	**67,611**

Depreciation expense for the year ended December 31, 2011 was $3.1 million (2010 – $2.5 million).

8. OTHER LONG TERM ASSETS

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred rent receivable	**487**	351	236
Deferred recoverable costs	**237**	419	129
Tenant inducements	**1,452**	1,629	603
	2,176	2,399	968

9. INVESTMENT IN JOINT VENTURES

NPR has a 50% interest in Inuvik Capital Suites Zheh Gwizu' Limited Partnership ("ICS") and a 50% interest in Inuvik Commercial Properties Zheh Gwizu' Limited Partnership ("ICP").

	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Net assets	NPR share of net assets
December 31, 2011								
ICP	**2,392**	**16,988**	**19,380**	**248**	**10,738**	**10,986**	**8,394**	**4,197**
ICS	**647**	**6,451**	**7,098**	**137**	**5,812**	**5,949**	**1,149**	**575**
Total	**3,039**	**23,439**	**26,478**	**385**	**16,550**	**16,935**	**9,543**	**4,772**
December 31, 2010								
ICP	531	18,593	19,124	247	10,795	11,042	8,082	4,041
ICS	397	6,690	7,087	103	5,836	5,939	1,148	574
Total	928	25,283	26,211	350	16,631	16,981	9,230	4,615
January 1, 2010								
ICP	132	18,661	18,793	447	9,742	10,189	8,604	4,302
ICS	159	6,946	7,105	149	6,213	6,362	743	372
Total	291	25,607	25,898	596	15,955	16,551	9,347	4,674

			Year ended December 31	
	Revenue	Expenses	Profit	NPR share of profit
2011				
ICP	**4,078**	**(3,528)**	**550**	**275**
ICS	**2,270**	**(1,896)**	**374**	**187**
Total	**6,348**	**(5,424)**	**924**	**462**
2010				
ICP	4,461	(4,381)	80	40
ICS	2,129	(1,727)	402	201
Total	6,590	(6,108)	482	241

There has been no change in NPR's 50% ownership or 50% voting interests in these joint ventures for the reported periods.

During the year ended December 31, 2011 NPR invested $nil (2010 - $850,000) capital into its joint ventures.

10. INTANGIBLE ASSETS

	Non-compete agreement	Computer Software	Total
Cost or deemed cost			
Balance at January 1, 2010	-	-	-
Additions for the year	-	-	-
Disposals for the year	-	-	-
Balance at December 31, 2010	-	-	-
Additions for the year	-	152	152
Business combination (Note 5)	2,521		2,521
Disposals for the year	-	-	-
Balance at December 31, 2011	**2,521**	**152**	**2,673**
Accumulated amortization			
Balance at January 1, 2010	-	-	-
Amortization for the year	-	-	-
Disposals for the year	-	-	-
Balance at December 31, 2010	-	-	-
Amortization for the year	252	-	252
Disposals for the year	-	-	-
Balance at December 31, 2011	**252**	**-**	**252**
Carrying amounts			
At January 1, 2010	-	-	-
At December 31, 2010	-	-	-
At December 31, 2011	**2,269**	**152**	**2,421**

Intangible assets consist of a non-compete clause acquired in a business combination (Note 5) on April 15, 2011 and computer software.

11. LOANS RECEIVABLE

Loans receivable consist of vendor take back loans on disposals of investment property as follows:

	December 31, 2011	December 31, 2010
Balance, January 1	**279**	371
Repayments	**(15)**	(92)
Balance, end of year	**264**	279

Vendor take back loans receivable on asset disposals are repayable over 15 year terms at interest rates of between 8.0% and 9.0% ending between August 31, 2021 and March 31, 2023. Loans are secured by the investment properties sold which had a fair value of $288,000 at the time of sale. Should the purchaser default on the loans, NPR would reacquire the property for the outstanding loan balance.

12. PREPAID EXPENSES AND OTHER ASSETS

	December 31, 2011	December 31, 2010	January 1, 2010
Prepaid expenses	**1,944**	1,699	2,413
Other assets	**750**	674	10
	2,694	2,373	2,423

13. TRUST UNITS, LIMITED PARTNERSHIP CLASS B UNITS, NORSERCO COMMON SHARES AND NORSERCO SPECIAL SHARES ("STAPLED UNITS')

Prior to May 11, 2010, the REIT's DOT included the requirement that on the last day of the year, an amount equal to the net income of the Trust for such Taxation Year, determined in accordance with the Tax Act and excluding Net Realized Capital Gains, not previously made payable to Unitholders in the Taxation Year, less the amount of any non-capital losses as defined in the Tax Act of the Trust carried forward, shall be automatically payable to Unitholders at the close of business on such day. Under IAS 32, this feature implies that the units have a fixed payment requirement, gives the REIT Units' debt characteristics and accordingly, the REIT Units and NPLP Class B units are financial liabilities, carried at fair value. Therefore, upon transition to IFRS, NPR is required to report its REIT Units and NPLP Class B Units as financial liabilities rather than as equity in accordance with the substance of the contractual arrangement under IAS 32. As a result of the amendments to the DOT approved at the May 11, 2010 Annual General Meeting, the Trustees have discretion to determine the amounts of distributions to the unit holders; and, therefore, after that date, the Trust Units are classified as equity. The ability to exchange NPLP Class B Units for REIT Units implies a liability element exists because it imposes an unavoidable obligation to deliver units of the trust (i.e., a financial instrument of another entity). Therefore, all classes of equity except the NPR Stapled Units will continue to be classified as financial liabilities.

On December 31, 2010, NPR completed its internal reorganization pursuant to the Arrangement (Note 1) which was approved by unitholders at a special meeting held on November 25, 2010. The Arrangement was completed to ensure NPR meets the definition of a Real Estate Investment Trust as defined in the Tax Act.

The Arrangement resulted in the following:

(i) The Class B Limited Partnership units of Northern Property Limited Partnership which were reported as a financial liability were converted into REIT Units; and

(ii) The Common Shares of NorSerCo were distributed to all REIT unitholders. The REIT Units and NorSerCo Common Shares are listed on the TSX together as a "Stapled Unit" under the trading symbol NPR.UN.

13. TRUST AND LIMITED PARTNERSHIP CLASS B UNITS (continued)

The continuity schedule for the Stapled units classified as liabilities for the year ended December 31, 2011 is as follows:

Date	Description	NPLP Class B units	REIT Units	Issue Price Call Price	Total Units	$(000's)
January 1, 2010		**2,085,090**	**23,020,538**	**21.90**	**25,105,628**	**549,821**
NPLP Class B units exchanged during Q1-2010		(59,436)	59,436	-	-	**-**
January 4, 2010	LTIP units issued	-	12,941	21.81	12,941	**282**
January 6, 2010	LTIP units issued	-	18,709	22.67	18,709	**424**
February 8, 2010	LTIP units issued	-	662	22.74	662	**15**
Q1, 2010	Options exercised	-	9,000	1.98	9,000	**18**
Q1, 2010	Options exercised	-	8,333	10.05	8,333	**84**
Q1, 2010	Fair value adjustment	-	**-**	**-**	-	**58,114**
Q2, 2010	Options exercised	-	2,725	9.10	2,725	**25**
Q2, 2010	Options exercised	-	7,567	8.98	7,567	**68**
NPLP Class B units exchanged during Q2-2010		(47,949)	47,949	-	-	**-**
May 11, 2010	Transfer to equity	-	(23,187,860)	24.91	(23,187,860)	**(577,610)**
NPLP Class B units exchanged during Q2-2010		(45,000)	-	-	(45,000)	**(1,052)**
Q2, 2010	Fair value adjustment	-	-	-	-	**14,611**
NPLP Class B units exchanged during Q3-2010		(35,000)	-	24.41	(35,000)	**(854)**
Q3, 2010	Fair value adjustment	-	-	-	-	**4,692**
NPLP Class B units exchanged during Q4-2010		(26,278)	-	27.00	(26,278)	**(710)**
Q4, 2010	Fair value adjustment	-	-	-	-	**6,194**
NPLP Class B units exchanged as per the Arrangement		(1,871,427)	-	28.92	(1,871,427)	**(54,122)**
December 31, 2010		-	-	-	-	**-**

NPRLP and NorSerCo Inc. were created as part of the Arrangement (Note 1). NPRLP is authorized to issue Class B Limited Partnership and Special Voting Units and NorSerCo is authorized to issue Special Shares (Note 19). No NPRLP Class B Trust Units or NorSerCo Special Shares were issued as in 2010. NPRLP issued 67,796 Class B Limited Partnership and Special Voting Units and NorSerCo issued 67,796 Special Shares ("Stapled Class B Units") during the fourth quarter of 2011 for the partial payment of an investment property.

Date	Description	NPRLP Class B units / NorSerCo Special Shares	REIT Units / NorSerCo Common Shares	Issue Price Call Price	Total Stapled Class B Units	$(000's)
January 1, 2011		**-**	**-**	**-**	**-**	**-**
NPLP Class B units issued during Q4-2011 on investment property acquisition (Note 6)		67,796	-	29.50	67,796	**2,000**
Q4, 2011	Fair value adjustment	-	-	29.72	-	**15**
NPRLP Class B stapled units exchanged for NPR stapled units		-	-	-	-	**-**
December 31, 2011		67,796	-	29.72	67,796	**2,015**

13. TRUST AND LIMITED PARTNERSHIP CLASS B UNITS (continued)

When REIT Units are reported as equity, distributions are reported in equity. Distributions paid to unitholders are reported as interest paid to unitholders during the year when REIT Units are reported as financial liabilities. Stapled Class B Units classified as financial liabilities and any distributions paid to NPRLP Class B unitholders or dividends paid to NorSerCo Special shareholders are classified as interest.

14. MORTGAGES PAYABLE

	December 31, 2011	December 31, 2010	January 1, 2010
Mortgages payable	**607,646**	523,540	511,286
Fair value adjustment	**(4,233)**	(6,999)	(8,217)
Deferred financing costs	**(13,624)**	(11,958)	(11,642)
	589,789	504,583	491,427
Discontinued operations	**(95,124)**	(97,600)	(99,895)
Total	**494,665**	406,983	391,532

Current	**56,051**	47,419	46,298
Non-current	**438,614**	359,564	345,234
Total	**494,665**	406,983	391,532

Mortgages payable bear interest at rates ranging from 2.86% to 6.48% (December 31, 2010 – 2.96% to 7.00%) and have a weighted average rate of 4.57% as at December 31, 2011 (December 31, 2010 – 4.64%). Mortgages are payable in monthly installments of blended principal and interest of approximately $3.3 million (December 31, 2010 – $2.9 million). The mortgages mature between 2012 and 2025 (December 31, 2010 – 2011 and 2025) and are secured by charges against specific properties. Land and buildings with a carrying value of $956.1 million (December 31, 2010 – $763.2 million) have been pledged to secure the mortgages payable of NPR. The fair value of mortgages payable at December 31, 2011 is approximately $516.3 million (December 31, 2010 – $423.9 million).

Mortgages payable related to discontinued operations bear interest at rates ranging from 4.25% to 5.49% (December 31, 2010 – 5.09% to 5.49%) and have a weighted average rate of 5.46% as at December 31, 2011 (December 31, 2010 – 5.47%). Mortgages are payable in monthly installments of blended principal and interest of approximately $693,000 (December 31, 2010 – $693,000). The mortgages mature between 2012 and 2021 (December 31, 2010 – 2011 and 2021) and are secured by charges against specific properties. Land and buildings with a carrying value of $170.4 million (December 31, 2010 – $174.9 million) have been pledged to secure the mortgages payable of discontinued operations. The fair value of mortgages payable at December 31, 2011 is approximately $103.3 million (December 31, 2010 – $99.6 million).

15. INCOME TAXES

On October 31, 2006, a "Distribution Tax" on publicly traded investment trusts and publicly listed partnerships was announced by the federal Minister of Finance. The announcement created a new tax regime for Specified Investment Flow Throughs ("SIFTs"), which include certain publicly listed income trusts and publicly listed partnerships. These entities are taxed in effect as corporations (at a rate comparable to the general combined federal/provincial corporate income tax rate). Certain real estate investment trusts are excluded from the SIFT definition and therefore are not subject to the new regime.

The legislation provided for a transition period for publicly traded entities that existed prior to November 1, 2006 and did not apply to NPR until 2011. The new tax regime does not apply to entities that qualify for the REIT Exemption. Where an entity does not qualify for the REIT Exemption certain distributions will not be deductible in computing income for tax purposes and will be subject to tax on such distributions at a rate comparable to the general corporate income tax rate

IFRS requires NPR to recognize deferred income tax assets and liabilities based on the estimated temporary differences between the estimated accounting and tax values of the REIT's assets and liabilities calculated using the expected tax rates of 19.63% to 28.40%. On December 31, 2010, the REIT completed an internal reorganization as described in Note 1. Following the internal reorganization, the REIT qualified for the REIT Exemption and is not subject to entity level income taxes.

15. INCOME TAXES (continued)

NorSerCo was incorporated in October 2010, had no operations during 2010 and effective January 1, 2011, operates the non-qualifying assets of the REIT and pays entity level income tax on its taxable income at the general combined federal/provincial corporate income tax rate. As a result, only a small portion of NPR's earnings in 2011, those of NorSerCo, are subject to entity level income taxation.

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. For the year ended December 31, 2011, this rate was 29.07% (2010 – 27.66%)

On July 20, 2011, the Minister of Finance released a press release (the "Press Release") announcing proposed changes to the tax treatment of real estate investment trusts that have issued publicly listed stapled securities. Under these changes, NorSerCo will not be entitled to deduct Rent that is paid or payable by it to the Partnership once the rules come into effect and apply to NorSerCo. For issuers which, like NPR, had stapled securities issued and outstanding on July 19, 2011, the Press Release proposes a transition period for the application of these new rules ending on July 21, 2012, which may be cut short and end on the earliest day after July 20, 2011 on which either a security of the issuer becomes a stapled security of the issuer or a stapled security of the issuer is materially altered. The Press Release did not include detailed draft legislation but, based on the information in it; it appears that the transition period for NPR will end no later than January 17, 2012, the date on which Stapled Units were issued pursuant to rights granted under the LTIP after July 20, 2011. In addition, from time to time NPR issues NPRLP Class B units and NorSerCo Special Shares to vendors in consideration for the acquisition of properties, the most recent of which transactions occurred on October 1, 2011. Pending the release of draft legislation, it is uncertain whether these rules will apply to such transactions. The aggregate additional corporate tax payable by NorSerCo as a consequence of the rules announced in the Press Release is not expected to be material, will not be recurring subject to restructuring and is not permanent. In future, the application of the new rules to NorSerCo may adversely affect its ability to pay dividends on the NorSerCo Shares.

16. OPERATING FACILITIES AND BANK INDEBTEDNESS

	December 31, 2011	December 31, 2010	January 1, 2010
Bank indebtedness	-	-	1,713
Operating facilities	**21,000**	7,898	33,698

At December 31, 2011, NPR had two revolving credit facilities totaling $57.5 million (December 31, 2010 - $57.5 million) for acquisition and operating purposes. The $50.0 million facility bears interest at prime plus 1.00% or Bankers' Acceptance plus 2.25% with a maturity date of May 17, 2012. The $7.5 million facility bears interest at prime plus 1.00% or Bankers' Acceptance plus 2.25% with a maturity date of July 28, 2012. Specific properties with a carrying value of $165.0 million (December 31, 2010 $158.7 million) have been pledged as collateral security for the operating facilities. At December 31, 2011 NPR had utilized $21.0 million (December 31, 2010 – $7.9 million) of the operating facilities.

17. UNIT BASED PAYMENTS

Long-Term Incentive Plan
NPR has a Long-Term Incentive Plan for the executives of NPR, based on the results of each fiscal year. Units granted and issued under the LTIP are as follows:

	Number of Units December 31, 2011	Issue Price	Number of Units December 31, 2010	Issue Price
Balance – January 1	**50,390**	-	48,473	-
Units issued – January	**(32,991)**	$28.42	(31,650)	$22.32
Units issued – February	**-**	-	(662)	$22.74
Units granted – December 31	**33,294**	$29.72	34,229	$28.92
Balance, end of year	**50,693**	-	50,390	-

17. UNIT BASED PAYMENTS (continued)

Units granted and issued under the LTIP to key management personnel are as follows:

	Number of Units December 31, 2011	Issue Price	Number of Units December 31, 2010	Issue Price
Balance – January 1	**33,439**	-	34,096	-
Units issued – January	**(23,543)**	$28.42	(24,142)	$22.32
Changes in key management personnel	**(2,314)**	-	-	-
Units granted – December 31	**19,044**	$29.72	23,485	$28.92
Balance, end of year	**26,626**	-	33,439	-

The total amount of LTIP awards are determined at the end of each fiscal year by the Trustees based on an assessment of the performance of NPR and the individual performance of the executives. The number of units issued is based on the trading price on December 31 of each year. Pursuant to the policy, rights to units generally vest in 1/3 tranches: immediately upon award, then 12 and 24 months following. LTIP awards to the President and Chief Executive Officer vest immediately.

Unit Option Plan

NPR has an Option Plan, which is subject to the rules of the TSX. In accordance with the Option Plan, NPR may grant options to acquire units up to a total of 1,830,429 units. All options to acquire units expire after 5 years and vest in 1/3 tranches: immediately upon award, then 12 and 24 months following or as determined by the Governance and Compensation Committee of NPR. The exercise price is determined using the weighted average trading price of the units on the five days prior to the options being granted.

The change in the number of options outstanding is as follows:

	December 31, 2011		December 31, 2010	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding, January 1	**497,131**	$22.05	859,997	$22.80
Granted	**-**	-	-	-
Exercised	**-**	-	(362,866)	$21.80
Expired / forfeited	**-**	-	-	-
Outstanding, at end of year	**497,131**	$22.05	497,131	$22.05
Exercisable at end of year	**497,131**	$22.05	444,635	$22.88

The fair value of the options granted was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2011	December 31, 2010
Risk-free interest rate	**0.96%**	1.79%
Expected dividend yield	**5.15%**	5.29%
Expected term	**2 years**	4 years
Expected volatility	**30.31%**	30.30%
Forfeiture rate	**0.00%**	0.00%

Compensation expense for the year ended December 31, 2011 relating to options granted was $21,000 (2010 – $329,000).

The following options were exercised during the year ended December 31, 2010:

	Trustees and Officers		**Officers**	
Exercise Date	**Number Exercised**	**Average Unit Price on Exercise**	**Number Exercised**	**Average Unit Price on Exercise**
March 31, 2010	17,333	$19.24	17,333	$19.24
June 30, 2010	11,492	$15.05	3,525	$15.05
September 30, 2010	4,000	$15.05	-	-
December 31, 2010	330,041	$22.26	192,007	$22.39

17. UNIT BASED PAYMENTS (continued)

No options were exercised during the year ended December 31, 2011.

Obligation under the LTIP and unit option plans

	December 31, 2011	December 31, 2010	January 1, 2010
Long-Term Incentive Plan Units	**885**	954	686
Option Plan Units	**3,812**	3,380	812
	4,697	4,334	1,498

18. EMPLOYEE UNIT PURCHASE PLAN

Under the terms of the Employee Unit Purchase Plan (the "EUPP"), employees may invest a maximum of 5% of their salary in NPR units and NPR contributes one unit for every three units acquired by an employee. The units are purchased on the TSX at market prices. During the year ended December 31, 2011, employees invested a total of $152,195 (2010 – $146,720) and NPR contributed $50,736 (2010 – $48,958). During the year ended December 31, 2011 7,381 units (2010 – 8,319 units) were purchased at an average cost of $29.13 per unit (2010 – $24.78).

19. STAPLED UNIT HOLDERS' EQUITY

On December 31, 2010, NPR completed the Arrangement, effective January 1, 2011 each holder of REIT Units received, for and in addition to each REIT Unit held, one NorSerCo Share. Each issued and outstanding REIT Unit now trades together with a NorSerCo Share as a Stapled Unit on the TSX under the symbol "NPR.UN".

The Stapled Units of the REIT and NorSerCo may only be transferred together as Stapled Units unless a "separation event" has occurred. A separation of the REIT Units and NorSerCo Common Shares can occur under either of the following: (a) the holders of REIT Units vote in favour of the unstapling of REIT Units and NorSerCo Common Shares; or (b) at the sole discretion of the trustees of the REIT or the directors of NorSerCo, upon an event of bankruptcy or insolvency of either the REIT or NorSerCo and/or their respective subsidiaries.

The DOT contains a number of provisions to achieve the "stapling" of the REIT Units and the NorSerCo Common Shares. In particular, at any time during which the REIT Units and the NorSerCo Shares are "stapled together" as Stapled Units (a "Stapled Time"):

(a) each REIT Unit may be transferred only together with a NorSerCo Share;
(b) no REIT Unit may be issued by the REIT to any person unless
    (i) a NorSerCo Share is simultaneously issued by NorSerCo to such person, or
    (ii) the REIT has arranged, subject to applicable regulatory approval, for the REIT Units to be consolidated immediately after such issuance, such that each Stapled Unit holder will hold an equal number of REIT Units and NorSerCo Shares immediately following such consolidation;
(c) a REIT 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 articles of NorSerCo, NorSerCo to redeem the same number of NorSerCo Common Shares; and
(d) the REIT may not purchase any REIT Units for cancellation unless NorSerCo purchases a corresponding number of NorSerCo Common Shares for cancellation.

If NorSerCo subdivides, redivides, reduces, combines, consolidates, reclassifies or makes other changes to the NorSerCo Shares during a Stapled Time, the REIT will be required, subject to applicable regulatory approvals, to simultaneously make a corresponding change to the REIT Units (other than in respect of changes that do not result in a REIT Unitholder holding an unequal number of REIT Units and NorSerCo Shares or a change that is followed immediately by a subdivision or consolidation after which each REIT Unitholder holds an equal number of REIT Units and NorSerCo Shares).

Apart from attributes necessary to achieve such "stapling", each REIT Unit and NorSerCo Share retains its own separate identity and is separately listed, but not posted for trading, on the TSX. The following is a summary of the material attributes and characteristics of the REIT Units and the NorSerCo Shares comprising the Stapled Units.

19. STAPLED UNIT HOLDERS' EQUITY (continued)

REIT Units
The total authorized number of REIT Units is unlimited. The total number of REIT Units outstanding as at December 31, 2011 is 29,430,297 (December 31, 2010 – 27,442,306, January 1, 2010 – 23,020,538).

Each REIT Unit represents an equal undivided beneficial interest in any distributions from the REIT, and in any of the net assets of the REIT in the event of termination or winding-up of the REIT. All REIT Units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each REIT Unit entitles the holder of record thereof to one vote for each whole REIT Unit held at all meetings of REIT Unitholders. Except as set out under "Redemption Rights" below, the REIT Units have no conversion, retraction, redemption or pre-emptive rights.

The REIT Units should not be viewed by potential investors as shares in the REIT. A REIT Unitholder has substantially all of the same protections, rights and remedies as a shareholder would have under the Canadian Business Corporations Act ("CBCA"), except that REIT Unitholders will not have the statutory rights normally associated with ownership of shares of a CBCA corporation including, for example, "dissent rights" in respect of certain corporate transactions and fundamental changes, rights to submit shareholder proposals at shareholder meetings, or the right to bring "derivative" or "oppression" actions. The Trustees of the REIT have powers, responsibilities and duties analogous to those of a board of directors of a corporation governed by the CBCA. The protections, rights and remedies available to a REIT Unitholder are contained in the DOT.

Transfer of REIT Units
Pursuant to the DOT, during a Stapled Time, a REIT Unit may only be transferred by a holder thereof in conjunction with the transfer of a NorSerCo Share. At any time that is not a Stapled Time (for instance, upon the occurrence of a separation event whereby the REIT Units and the NorSerCo Shares become unstapled), the REIT Units are freely transferable.

Purchase of REIT Units
Pursuant to the DOT, the REIT may from time to time purchase REIT Units in accordance with applicable securities regulatory laws, regulations or policies or the policies of any applicable stock exchange, provided that if such time is a Stapled Time, the REIT shall not purchase for cancellation any outstanding REIT Units unless NorSerCo purchases for cancellation an equal number of NorSerCo Shares in accordance with its articles. Any such purchases will constitute an "issuer bid" for each of the REIT and NorSerCo under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Redemption Rights
REIT Units are redeemable at any time on demand by the holders thereof provided that, if the time is a Stapled Time, the REIT Unitholder must simultaneously tender to NorSerCo for retraction an equal number of the holder's NorSerCo Shares in accordance with the articles of NorSerCo (see "NorSerCo Common Shares" below). A REIT Unitholder not otherwise holding a fully registered Stapled Unit certificate who wishes to exercise the redemption right is required to obtain a written redemption notice (the "Redemption Notice") from his or her investment dealer who is then required to deliver the completed Redemption Notice to the REIT. Upon receipt by the REIT of the Redemption Notice, the REIT Unitholder shall thereafter cease to have any rights with respect to the REIT Units tendered for redemption (other than to receive the redemption payment therefore) including the right to receive any distributions thereon which are declared payable to the REIT Unitholders of record on a date which is subsequent to the day of receipt by the REIT of such notice. REIT Units shall be considered to be tendered for redemption on the date that the REIT has, to the satisfaction of the Trustees, received the Redemption Notice and all other required documents or evidence.

Upon receipt of the Redemption Notice by the REIT, the holder of the REIT Units tendered for redemption shall be entitled to receive a price per REIT Unit (the "Redemption Price") equal to the lesser of:

(a) 90% of the "market price" of the REIT Units on the principal market on which the units are quoted for trading during the 20 trading day period commencing immediately subsequent to the day on which the units were surrendered to the REIT for redemption (the "Redemption Date"); and

(b) 100% of the "closing market price" on the principal market on which the REIT Units are quoted for trading on the Redemption Date.

If the Redemption Date occurs during a Stapled Time, the above references to REIT Units must be read as "Stapled Units", and the Redemption Price will be reduced by the retraction price of a NorSerCo Share (as calculated in accordance with NorSerCo's articles) on that date.

19. STAPLED UNIT HOLDERS' EQUITY (continued)

For the purposes of calculating the Redemption Price, "market price" shall be an amount equal to the weighted average of the closing price of the REIT Units for each of the trading days on which there was a closing price; provided that if the applicable exchange or market does not provide a closing price, but only provides the highest and lowest prices of the REIT Units traded on a particular day, the "market price" shall be an amount equal to the average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the 20 trading days, the "market price" shall be the weighted average of the following prices established for each of the 20 trading days: (i) the weighted average of the last bid and last asking prices of the REIT Units for each day there was no trading; (ii) the closing price of the REIT Units for each day that there was trading if the exchange or market provides a closing price; and (iii) the weighted average of the highest and lowest prices of the REIT Units for each day that there was trading if the market provides only the highest and lowest prices of such units traded on a particular day. Where the holder of REIT Units tendered for redemption is entitled to receive a price per unit equal to 100% of the "closing market price" on the principal market on which the units are quoted for trading on the Redemption Date, the "closing market price" shall be (i) an amount equal to the closing price of the REIT Units if there was a trade on the date and the exchange or market provides a closing price; (ii) an amount equal to the weighted average of the highest and lowest prices of the REIT Units if there was trading and the exchange or other market provides only the highest and lowest prices of REIT Units traded on a particular day; or (iii) the weighted average of the last bid and last asking prices of those units if there was no trading on that date.

The aggregate Redemption Price payable by the REIT in respect of any REIT Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment no later than the last day of the calendar month following the month in which the 20 trading day period referred to above ended, provided that there is no entitlement for REIT Unitholders to receive cash upon the redemption of their REIT Units if:

(a) the total amount payable by the REIT in respect of such REIT Units and all other units tendered for redemption in the same calendar month exceeds $50,000, provided that the Trustees may, in their sole discretion, waive such limitation in respect of all REIT Units tendered for redemption in any particular calendar month;
(b) at the time such REIT Units are tendered for redemption, the outstanding units are not listed on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the REIT Units; or
(c) the normal trading of outstanding REIT Units is suspended or halted on any stock exchange on which the REIT Units are listed for trading (or, if not listed on a stock exchange, on any market on which the REIT Units are quoted for trading) on the Redemption Date or for more than five trading days during the 20 day trading period commencing immediately after the Redemption Date.

If a REIT Unitholder is not entitled to receive cash upon the redemption of REIT Units as a result of any one of the foregoing limitations, then the Redemption Price for such REIT Units shall be the fair market value thereof as determined by the Trustees and shall, subject to any applicable regulatory approvals, be paid out and satisfied by way of a distribution in specie consisting of such assets of the REIT as determined by the Trustees.

Based on historic information over the past year, redemption levels are expected to be nil. However, the actual level of redemptions may differ significantly from historic experience.

NorSerCo Common Shares

The total authorized number of common shares is unlimited. The total number of NorSerCo Common Shares outstanding as at December 31, 2011 is 29,430,297 (December 31, 2010 – 27,442,306, January 1, 2010 – nil). NorSerCo Common Shares are "stapled" to REIT Units and trade together as "Stapled Units" on the Toronto Stock Exchange under the trading symbol "NPR.UN".

Pursuant to NorSerCo's articles of incorporation, at a Stapled Time, a NorSerCo Shareholder can require NorSerCo to redeem such shareholder's NorSerCo Shares, provided that the shareholder simultaneously tenders to the REIT for redemption, in accordance with the DOT, an equivalent number of the REIT Units held by the shareholder. A NorSerCo Shareholder will be entitled to be paid, in respect of each NorSerCo Share tendered for retraction, the lesser of $100 or the fair market value of a NorSerCo Share, plus any declared but unpaid dividends on such shares.

19. STAPLED UNIT HOLDERS' EQUITY (continued)

NPLP Class B Exchangeable Limited Partnership Units and Special Voting Units ("NPLP Class B Units")

Prior to the Arrangement, Northern Property Limited Partnership ("NPLP"), a wholly owned subsidiary of the REIT, had issued NPLP Class B Units on the formation of the REIT and for subsequent property acquisitions. The NPLP Class B Units were exchangeable for REIT Units at any time at the option of the holder of the NPLP Class B Units. Each NPLP Class B Unit had a "Special Voting Unit" attached to it, which entitled the holder to one vote, either in person or by proxy, at the meeting of unitholders of the trust as if he or she was a unitholder of the REIT.

As part of the Arrangement completed on December 31, 2010 (Note 1) all outstanding NPLP Class B Units were redeemed for REIT Units and NPLP was subsequently dissolved. The total number of NPLP Class B Units and special voting units outstanding as at December 31, 2011 is nil (December 31, 2010 – nil, January 1, 2010 – 2,085,090).

NPR Class B Limited Partnership Units and Special Voting Units ("NPRLP Class B Units")

As part of the Arrangement (Note 1), a new wholly-owned partnership, NPRLP was created. Similar to NPLP, NPRLP can issue NPRLP Class B Units in conjunction with property acquisitions. NPRLP Class B Units can be exchanged for REIT Units at any time at the option of the holder. Each NPRLP Class B Unit will have a "Special Voting Unit" attached to it, which will entitle the holder to one vote, either in person or by proxy, at the meeting of unit holders of the trust as if he or she was a unit holder of the trust. The total number of NPRLP Class B Units and special voting units outstanding as at December 31, 2011 is 67,796, (December 31, 2010 – nil; January 1, 2010 – nil). NPRLP Class B Units are classified as financial liabilities on the combined financial statements.

NorSerCo Special Shares

The total authorized number of special shares is unlimited. The special shares are convertible into common shares upon NPRLP Class B unit holders exercising their option to convert to REIT Units and cannot be converted independently of one another. The total number of NorSerCo Special Shares outstanding as at December 31, 2011 is 67,796, (December 31, 2010 – nil; January 1, 2010 – nil). NorSerCo Special Shares are classified as financial liabilities on the combined financial statements.

As part of the Arrangement (Note 1), the REIT distributed the Common Shares of NorSerCo to each REIT Unitholder. The transaction is a related party transaction and was recorded at net book value of $6.9 million.

The REIT Units and NorSerCo Common Shares are stapled together effective December 31, 2010. These stapled units are listed and posted for trading on the TSX. Providing that a "separation event" has not occurred; a REIT Unit may only be transferred together with a NorSerCo Common Share; no trust unit may be issued by the REIT unless a NorSerCo Common Share is issued; and a unitholder may require the REIT to redeem a particular number of REIT Units only if the same number of NorSerCo Common Shares are redeemed. Equivalent restrictions apply with respect to the transfer, issuance and redemption of NorSerCo Common Shares.

19. STAPLED UNIT HOLDERS' EQUITY (continued)

The number of Stapled Units issued and outstanding for the year ended December 31, 2011 and 2010 is as follows:

Date	Description	Stapled Units	Fair Value	$(000's)
May 11, 2010	Transfer from unit obligation	23,187,860		**577,610**
Q2, 2010	Options exercised	1,200	$23.47	**28**
Class B LP units exchanged during Q2, 2010		45,000	$23.38	**1,052**
Q3, 2010	Options exercised	4,000	$23.90	**96**
Q3, 2010	Public Offering	1,941,500	$25.50	**49,508**
Q3, 2010	Issue costs	-	-	**(2,505)**
Class B LP units exchanged during Q3, 2010		35,000	$23.90	**856**
Class B LP units exchanged during Q4, 2010		-	-	**-**
Q4, 2010	Options exercised	305,341	$25.50	**7,863**
Q4, 2010	Options exercised	17,200	$27.41	**471**
Q4, 2010	Options exercised	7,500	$28.00	**210**
NPLP Class B units Redeemed for REIT Units		26,278	$27.00	**709**
NPLP Class B units Redeemed for REIT Units	Plan of Arrangement	1,871,427	$28.20	**54,122**
Special distribution	Plan of Arrangement			**6,867**
December 31, 2010		**27,442,306**		**696,887**
January 12, 2011	LTIP units issued	11,213	$28.56	**320**
January 17, 2011	LTIP units issued	21,778	$28.35	**618**
May 27, 2011	Public offering of stapled units	1,955,000	$29.85	**58,357**
May 27, 2011	Issue costs			**(2,655)**
December 31, 2011		**29,430,297**		**753,527**

Distributions to Stapled Unit holders

Pursuant to the DOT, holders of REIT Units and NPRLP Class B units are entitled to receive distributions made on each distribution date as approved by the Trustees.

Effective December 31, 2010, the REIT Units and NorSerCo Shares are listed on the TSX together as a "Stapled Unit". The total number of Stapled Units outstanding and eligible for distributions at December 31, 2011 is 29,430,297, (December 31, 2010 - 27,442,306; REIT Trust Units and LP B Units January 1, 2010 – 25,105,628).

Effective October 1, 2011, NPRLP issued 67,796 Class B Limited Partnership and Special Voting Units and NorSerCo issued 67,796 Special Shares which are reported as financial liabilities and the distributions thereon are treated as interest. Stapled Class B Units are included in all per share calculations.

20. NON-CONTROLLING INTERESTS

NPR holds investments in a number of jointly controlled entities. NPR controls 55% of the GoGa Cho Building Limited partnership ("GoGa Cho") and, accordingly, consolidates the operations and records a 45% non-controlling interest. NPR controls 49% of the Icicle / Ninety North Joint Venture ("Icicle") and Aqsaqniq / Ninety North Joint Venture ("Aqsaqniq") operations; however NPR effectively controls the operations. NPR manages all aspects of the joint venture operations, prepares budgets which follow NPR operating policies and determines whether distributions should be paid to the joint venture partners. Because of the inherent control over the joint venture operations, NPR consolidates their operations and records non-controlling interests.

20. NON-CONTROLLING INTERESTS (continued)

NPR's ownership interest:

Jointly controlled entity	**December 31, 2011**	December 31, 2010	December 31, 2010
Icicle	**49%**	49%	49%
Aqsaqniq	**49%**	49%	49%
GoGa Cho	**55%**	55%	55%

21. GUARANTEES, COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, NPR may provide indemnification commitments to counterparties in transactions such as credit facilities, leasing transactions, service arrangements, director and officer indemnification agreements and sales of assets. These indemnification agreements may require NPR to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by counterparties as a consequence of the transaction. The terms of these indemnification agreements vary based on the contract and do not provide any limit on the maximum potential liability. To date, NPR has not made any payments under such indemnifications and no amount has been accrued in the financial statements with respect to these indemnification commitments.

In the normal course of operations, NPR becomes subject to various legal and other claims. Management and its legal counsel evaluate these claims and, where required, accrue the best estimate of costs relating to these claims. Management believes the outcome of claims of this nature at December 31, 2011 and at December 31, 2010 will not have a material impact on NPR.

During the normal course of operations, NPR provided guarantees for mortgages payable relating to investments in corporations and joint ventures where NPR owns less than 100%. The mortgages payable are secured by specific charges against the properties owned by the corporations and joint ventures. In the event of a default of the corporation or joint venture, NPR may be liable for up to 100% of the outstanding balances of these mortgages payable.

	December 31, 2011	December 31, 2010	January 1, 2010
Mortgage payable guarantees of controlled entities:			
Aqsaqniq (at 49%)	**117**	153	186
Icicle (at 49%)	**124**	162	197
	241	315	383

At December 31, 2011, NPR has provided guarantees on mortgages of its minority interest subsidiaries secured by investment properties totaling $241,000 (December 31, 2010 – $315,000, January 1, 2010 – $383,000). As at December 31, 2011, these mortgages bear interest at 3.36% and mature December 2012, (December 31, 2010 – 3.46% and mature December 2011 January 1, 2010 – 3.06% and mature December 2010). As at December 31, 2011, land and buildings with a fair value of $1.2 million have been pledged to secure these mortgages payable (December 31, 2010 – $1.2 million, January 1, 2010 – $1.2 million). The mortgage balances have been recorded in NPR's financial statements. Management assesses the risk of default at each reporting date, believes that no default will occur and, accordingly, no amount has been recorded by NPR in these combined financial statements.

	December 31, 2011	December 31, 2010	December 31, 2010
Mortgage payable guarantees of equity consolidated joint ventures:			
ICP (at 50%)	**7,773**	7,094	5,701
ICS (at 50%)	**3,750**	3,750	3,750
	11,523	10,844	9,451

21. GUARANTEES, COMMITMENTS AND CONTINGENCIES (continued)

At December 31, 2011, NPR has provided guarantees on mortgages secured by investment properties totaling $11.5 million (December 31, 2010 – $10.8 million, January 1, 2010 – $9.5 million) of its equity consolidated joint ventures. These mortgages bear interest at rates ranging from 4.95% to 5.72% and mature January 2012 to July 2016 (December 31, 2010 – 4.34% to 6.10% and mature May 2011 to December 2015, January 1, 2010 – 4.95% to 6.10% and mature July 2010 to December 2013). As at December 31, 2011, land and buildings with a carrying value of $25.2 million have been pledged to secure these mortgages payable (December 31, 2010 – $24.5 million, January 1, 2010 – $23.5 million). Due to the equity consolidation of ICP and ICS, the mortgage balances have not been recorded in NPR's financial statements. Management believes that no default will occur and, accordingly, no amount has been recorded by NPR in these combined financial statements.

NPR has begun a remediation program to repair and reinforce rental housing damaged by a fierce windstorm in Pangnirtung, Nunavut during the fall of 2011. An engineering assessment has determined that there were deficiencies in the structural engineering design for this 2002 development which was purchased in 2004. The same design was used for the construction of rental housing acquired in Cape Dorset, and Pond Inlet, NWT. NPR expects to complete a remediation program in the three communities during 2012. NPR has been in discussions with the insurance company for the design engineer of record and will claim the estimated cost of $2.2 million against the insurance for the design engineer of record. It is unknown how much of the remediation costs, if any, the REIT will be responsible for.

22. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are initially recognized at fair value in accordance with IFRS 9 and are subsequently accounted for based on their classification as described below. IFRS 9 simplifies accounting for financial assets by replacing the multiple measurement categories in IAS 39 with a single principle based approach to classification. IFRS 9 allows an entity to designate financial instruments be classified as FVTPL or amortized cost on the basis of NPR's business model for managing financial assets or financial liabilities and the cash flow characteristics of the financial instrument. Financial assets and financial liabilities are initially measured at fair value plus transaction costs or those financial assets and financial liabilities measured at FVTPL; fair value not including transaction costs. Financial assets measured at amortized cost are assessed for impairment each reporting period.

Where NPR's objective is to hold the financial asset to collect the contractual cash flows (Accounts receivable, Term deposits and short term investments, loan receivable), the financial assets are measured at amortized cost. Financial assets are classified as FVTPL when they do not meet the following criteria; i) the financial asset is not held to collect a contractual cash flow, ii) the payments received are not solely principal and interest on the amount of principal outstanding. NPR would derecognize a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities are measured at fair value minus transaction costs directly attributable to the issue of the financial liability when the liability is not valued through profit or loss. A hierarchical method is used to measure fair value: a) active market with quoted prices; b) no active market - requiring valuation techniques: recent market transactions, discounted cash flow, reference to a similar transaction; c) no active market - equity instruments: cost less impairment may be used if no reliable estimate of fair value can be made. Distributions or dividends payable declared on REIT Units or NorSerCo common shares with a record date of or prior to NPR's reporting date are recorded as a financial liability. NPRLP Class B units and NorSerCo Special Shares if any had been issued would be recorded as financial liabilities. NPR would derecognize a financial liability when its obligations are discharged, cancelled or expire. Any difference between the amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

22. FINANCIAL INSTRUMENTS (continued)

NPR has the following categories of financial instruments:

Financial asset or financial liability	**December 31, 2011**		December 31, 2010		January 1, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets carried at FVTPL						
Cash	**2,670**	**2,670**	2,921	2,921	-	-
Financial assets carried at amortized cost						
Accounts receivable	**4,489**	**4,489**	2,884	2,884	3,878	3,878
Loan receivable	**264**	**264**	279	279	371	371
Term deposits	**5,023**	**5,023**	4,087	4,087	3,555	3,555
Financial liabilities carried at FVTPL						
Trust units	**-**	**-**	-	-	549,821	549,821
NPRLP Class B units and NorSerCo special shares	**2,015**	**2,015**	-	-	-	-
Unit based payments	**4,697**	**4,697**	4,334	4,334	1,498	1,498
Forward utility contracts	**-**	**-**	55	55	152	152
Bank indebtedness	**-**	**-**	-	-	1,713	1,713
Financial liabilities carried at amortized cost						
Mortgages payable	**494,665**	**516,250**	406,983	423,918	391,532	417,074,
Distributions payable	**3,761**	**3,761**	3,499	3,499	3,096	3,096
Trade and other payables	**20,692**	**20,692**	17,995	17,995	13,982	13,982
Operating facilities	**21,000**	**21,000**	7,898	7,898	33,698	33,698

NPR had no embedded derivatives requiring separate recognition.

NPR's financial assets and financial liabilities are substantially carried at amortized cost, which approximates fair value. Such fair value estimates are not necessarily indicative of the amounts the Trust might pay or receive in actual market transactions.

The fair value hierarchy of financial instruments measured at fair value on the statement of financial position is as follows:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets									
Cash	**2,670**	**-**	**-**	2,921	-	-	-	-	-
Financial Liabilities									
Unit based payments	**-**	**4,697**	**-**	-	4,334	-	-	1,498	-
Trust units	**-**	**-**	**-**	-	-	-	549,821	-	-
NPRLP Class B units and NorSerCo special shares	**-**	**2,015**	**-**	-	-	-	-	-	-
Forward utility contracts	**-**	**-**	**-**	-	55	-	-	152	-
Bank indebtedness	**-**	**-**	**-**	-	-	-	1,713	-	-

The three levels of the fair value hierarchy are described as follows:
Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

22. FINANCIAL INSTRUMENTS (continued)

The classification and measurement of financial assets and liabilities under IFRS 9 as compared to Canadian GAAP is below. The date of initial application was December 31, 2010 and IFRS 9 was applied retrospectively to January 1, 2010.

Financial asset or financial liability at January 1, 2010	Classification and Measurement under Canadian GAAP	New measurement category under IFRS 9
Financial assets		
Current financial assets		
Accounts receivable	Loans and receivables	Amortized cost
Loan receivable	Loans and receivables	Amortized cost
Term deposits	Loans and receivables	Amortized cost
Cash	Loans and receivables	FVTPL
Financial liabilities		
Non-current financial liabilities		
Mortgages	Other financial liabilities	Amortized cost
Trust and Limited Partnership Class B units	Equity	FVTPL
Current financial liabilities		
Distributions payable	Other financial liabilities	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Unit based payments	Equity	FVTPL
Forward utility contracts	Other financial liabilities	FVTPL
Bank indebtedness	Other financial liabilities	Amortized cost
Operating facilities	Other financial liabilities	Amortized cost

NPR had no credit derivatives over financial assets at December 31, 2011, December 31, 2010, January 1, 2010 and throughout the intervening periods.

Utility cost risk

NPR's quarterly operating costs and earnings have a seasonal component to them resulting from higher utility costs in the first and fourth quarters of each year. As well, NPR is exposed to utility cost risk, which results from the fluctuation in retail prices for fuel oil, natural gas and electricity, the primary utilities used to heat its properties. The exposure to utility cost risk is restricted primarily to the residential rental and execusuites and hotels portfolio. The leases in the remainder of the portfolio generally provide for recovery of operating costs from tenants, including utilities. Because of the northern location of a significant portion of NPR's portfolio, the exposure to utility price fluctuations is more pronounced in the first and last fiscal quarter of the year.

NPR manages its exposure to utility risk through a number of preventative measures, including retrofitting properties with energy efficient appliances, fixtures and windows. With the exception of a fixed price utility contract in place on certain residential rental units in Alberta, NPR does not utilize hedges or forward contracts to manage exposure to utility cost risk.

Heating oil is the primary source of fuel for heating properties located in Nunavut and the Northwest Territories. Over the last three years, NPR converted heating systems for some properties in Yellowknife from fuel oil based boilers to wood pellet boilers and in Inuvik, all of the fuel oil based boilers in the residential portfolio have now been converted to natural gas based boilers. The investment in these environmentally friendly and more efficient boilers continues to reduce NPR's exposure to volatile heating oil prices. Exposure to increases in the cost of heating oil is partially offset by the ability to recover these increases from a significant proportion of its commercial and some residential tenants.

Natural gas is the main source of fuel for heating properties located in Alberta, BC and Inuvik, NWT. NPR had fixed price contracts for certain of its properties in Alberta that ended during the third quarter of 2011. Natural gas prices in Inuvik and BC are not subject to regulated price control and NPR does not use financial instruments to manage the exposure to the price risk.

Management prepared a sensitivity analysis on the impact of price changes in the cost of heating oil and natural gas. A 10% change in the average price of heating oil and natural gas would impact NPR's net income by $477,000 for the year ended December 31, 2011.

22. FINANCIAL INSTRUMENTS (continued)

Electricity is the primary source of fuel for heating properties located in Newfoundland as well as parts of north-eastern BC. In Newfoundland, electricity is purchased from the provincially regulated utility and is directly paid by the tenants for a significant portion of the Entities' multi-family rental units. As a result, there is no significant risk to NPR regarding the price of electricity.

Liquidity risk

Ultimate responsibility for liquidity risk management lies with management and the Board of Trustees. NPR manages liquidity risk by managing mortgage and loan maturities to ensure a relatively even amount of mortgage maturities in each year. At December 31, 2011, NPR has two revolving credit facilities totalling $57.5 million. At December 31, 2011, NPR has utilized $21.0 million of its operating facilities compared to $7.9 million at December 31, 2010. Cash flow projections are completed on a regular basis to ensure there will be adequate liquidity to maintain operating, capital and investment activities in addition to making monthly distributions to unit holders. The Board of Trustees reviews the current financial results and the annual business plan in determining appropriate distribution levels.

The current low interest rate environment and NPR's mortgage financing program continues to provide financing for multi-family properties at lower interest rates than were previously in place. It is not possible to predict whether the current low interest rate environment will continue.

Contractual maturity for non-derivative financial assets at December 31, 2011:

	Carrying Amount	**Contractual Cash Flows**	**0 – 6 months**	**6 months to 1 year**	**1 – 5 years**	**Over 5 years**
Cash	**2,670**	**2,670**	**2,670**	**-**	**-**	**-**
Term deposits and short term investments	**5,023**	**5,023**	**5,023**	**-**	**-**	**-**
Accounts receivable	**4,489**	**4,489**	**4,489**	**-**	**-**	**-**
Loans receivable	**264**	**398**	**18**	**18**	**147**	**215**
Prepaid expenses and other assets	**2,694**	**2,694**	**2,206**	**336**	**152**	**-**

Contractual maturity for non-derivative financial assets at December 31, 2010:

	Carrying Amount	Contractual Cash Flows	0 – 6 months	6 months to 1 year	1 – 5 years	Over 5 years
Cash	2,921	2,921	2,921	-	-	-
Term deposits and short term investments	4,087	4,087	4,087	-	-	-
Accounts receivable	2,884	2,884	2,884	-	-	-
Loans receivable	279	434	18	18	147	251
Prepaid expenses and other assets	2,373	2,373	2,020	254	99	-

Contractual maturity for non-derivative financial liabilities at December 31, 2011:

	Carrying Amount	**Contractual Cash Flows**	**0 – 6 months**	**6 months to 1 year**	**1 – 5 years**	**Over 5**

22. FINANCIAL INSTRUMENTS (continued)

Contractual maturity for non-derivative financial liabilities at December 31, 2010:

	Carrying Amount	Contractual Cash Flows	0 – 6 months	6 months to 1 year	1 – 5 years	Over 5 Years
Trade and other payables	13,972	13,972	13,770	92	110	-
Distributions	3,499	3,499	3,499	-	-	-
Operating facilities	7,898	7,898	7,898	-	-	-
Tenant security deposits	4,023	4,023	1,810	1,408	805	-
Mortgages payable	406,983	497,739	33,778	29,477	345,509	88,975

Contractual maturity for derivative financial liabilities at December 31, 2011:

	Carrying Amount	**Contractual Cash Flows**	**0 – 6 months**	**6 months to 1 year**	**1 – 5 years**	**Over 5 Years**
Unit based payments	**4,697**	**4,697**	**4,697**	**-**	**-**	**-**
Forward utility contract	**-**	**-**	**-**	**-**	**-**	**-**

Contractual maturity for derivative financial liabilities at December 31, 2010:

	Carrying Amount	Contractual Cash Flows	0 – 6 months	6 months to 1 year	1 – 5 years	Over 5 Years
Unit based payments	4,334	4,334	4,310	24	-	-
Forward utility contract	55	55	41	14	-	-

Management believes that future cash flows from operations and cash available under the current operating facilities provide sufficient available funds through the foreseeable future to support these financial liabilities.

Credit risk

NPR's credit risk primarily arises from the possibility that tenants may not be able to fulfill their lease commitments. Tenant receivables are comprised of a large number of tenants spread across the geographic areas in which NPR operates. There are no significant exposures to single tenants with the exception of AgeCare Investments Ltd. ("AgeCare"), which leases seniors' properties located in Alberta and BC, and the Governments of Canada, Nunavut and the Northwest Territories, which lease a large number of residential units and commercial space in the Northwest Territories and Nunavut.

NPR mitigates credit risk through conducting thorough credit checks on prospective tenants, requiring rental payments on the first of the month, obtaining security deposits approximating one month's rent from tenants where legislation permits, and geographic diversification in its portfolio. NPR records a specific bad debt provision on balances owed from past tenants and provides an allowance for receivables, net of security deposits, from current tenants where the expected amount to be collected is less than the actual accounts receivable.

The following is an aging of current tenant and other receivables:

	December 31, 2011	December 31, 2010	January 1, 2010
0-30 days	**1,189**	901	1,371
31-60 days	**671**	414	190
61-90 days	**172**	76	53
Over 90 days	**1,307**	746	659
Tenant receivables	**3,339**	2,137	2,273
Other receivables	**1,890**	1,087	1,930
Allowance for doubtful accounts	**(740)**	(340)	(325)
	4,489	2,884	3,878

22. FINANCIAL INSTRUMENTS (continued)

NPR classifies tenants as past tenants on the date of their move out from a residential unit. NPR records a specific allowance for doubtful accounts on all balances owed by past tenants. Any subsequent recovery of balances owed from past tenants is recorded as a reduction in the bad debt provision for the period. In addition, NPR records an allowance for doubtful accounts from current tenants and other receivables where the expected amount to be collected is less than the actual accounts receivable. The amounts disclosed on the statement of financial position are net of allowances for uncollectible accounts from current and past tenants and other receivables, estimated by Management based on prior experience and current economic conditions.

The reconciliation of changes in allowance for doubtful accounts is as follows:

	December 31, 2011	December 31, 2010
Balance, January 1	**340**	325
Increase in allowance	**400**	15
Balance, end of year	**740**	340

Age of impaired trade receivables

	December 31, 2011	December 31, 2010	January 1, 2010
Current	**274**	-	22
31-60 days	**223**	71	84
61-90 days	**73**	29	27
Over 90 days	**170**	240	192
Total	**740**	340	325

Interest rate risk

The REIT is exposed to interest rate risk on mortgages payable and does not hold any financial instruments to mitigate that risk. In the current economic environment, it is difficult to predict what future interest rates will be and as such, the REIT may not be able to continue to renew mortgage loans with interest rates that are lower than those currently in place. The REIT utilizes both fixed and floating rate debt. Interest rate risk related to floating interest rates is limited primarily to the utilization of operating facilities. Management mitigates interest rate risk by utilizing fixed rate mortgages, ensuring access to a number of sources of funding and staggering mortgage maturities with the objective of achieving relatively even annual debt maturities. To the extent possible, the REIT maximizes the amount of mortgages on residential rental properties where it is possible to lower interest rates through Canada Mortgage and Housing Corporation mortgage insurance.

A sensitivity analysis on floating rate debt has been completed based on the exposure to interest rates at the statement of financial position date. Floating rate debt includes all mortgages payable which are not subject to fixed interest rates and the credit facilities. A 0.50% change in interest rates, keeping all other variables constant, would change NPR's net income for the year ended December 31, 2011 by $86,000.

23. CAPITAL MANAGEMENT

NPR's objectives when managing its capital are to safeguard its assets while maximizing the growth of its business, returns to unit holders and maintaining the sustainability of cash distributions. NPR's capital consists of mortgages payable, operating and acquisition facilities, REIT Units, NorSerCo Common Shares, NPRLP Class B Units and NorSerCo Special Shares. NPLP Class B units were redeemed for REIT Units as part of the Arrangement (Note 1) completed on December 31, 2010 and NPLP was subsequently dissolved.

Management monitors the Entities' capital structure on an ongoing basis to determine the appropriate level of mortgages payable to be placed on specific properties at the time of acquisition or when existing debt matures. NPR follows conservative guidelines which are set out in the DOT. In determining the most appropriate debt, consideration is given to strength of cash flow generated from the specific property, interest rate, depreciation period, maturity of the debt in relation to the existing debt of NPR, interest and debt service ratios, and limits on the amount of floating rate debt. NPR has operating facilities which are used to fund acquisitions and capital expenditures until specific mortgage debt is placed or additional equity is raised.

NPR's calculations of its adherence to bank covenants are considered non-IFRS measures.

23. CAPITAL MANAGEMENT (continued)

Consistent with others in the industry, NPR monitors capital on the basis of debt to gross book value ratio. The DOT provides for a maximum debt to gross book value ratio of 70%. For the purposes of these financial statements, Debt to Gross Book Value is calculated on the combined Entities. NPR does not anticipate operating above a debt to gross book value ratio of 60%.

NPR's debt to gross book value is as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Cash	**(2,670)**	(2,921)
Operating facilities	**21,000**	7,898
Mortgages payable	**607,646**	523,540
Debt	**625,976**	528,517
Investment properties	**1,043,485**	857,512
Property, plant and equipment	**67,611**	43,754
Property held for sale	**190,547**	204,200
Accumulated depreciation	**7,434**	4,657
Gross Book Value	**1,309,077**	1,110,123
Debt to Gross Book Value	**47.8%**	47.6%

NPR is subject to three principal financial covenants in its mortgage payable and operating facilities. The financial covenants are described as follows:

(i) Debt Service Coverage – calculated as Net earnings before interest (not including distributions classified as interest paid on REIT Units or Class B units), unrealized fair value adjustments, taxes and depreciation divided by the debt service payments (total interest expense (not including distributions classified as interest paid on REIT Units, Class B units or NorSerCo Special Shares), and principal repayments);

(ii) Interest Coverage – calculated as Net earnings before interest (not including distributions classified as interest paid on REIT Units or Class B units), unrealized fair value adjustments, taxes and depreciation divided by total interest expense (not including distributions classified as interest paid on REIT Units, Class B units or NorSerCo Special Shares);

(iii) Debt to Gross Book Value as calculated above.

23. CAPITAL MANAGEMENT (continued)

	Year ended December 31, 2011	Year Ended December 31, 2010
Income from combined operations before taxes	**86,601**	(81,086)
Depreciation and amortization	**3,355**	2,486
Interest on mortgages	**27,977**	26,290
Interest on operating facilities	**622**	1,163
Interest on units	**26**	14,324
Unrealized fair value changes	**(22,880)**	119,798
Net income before interest, taxes and depreciation	**95,701**	82,975
Interest on mortgages	**27,977**	26,290
Interest on operating facilities	**622**	1,163
Total Interest Expense	**28,599**	27,453
Principal repayments	**17,899**	16,571
Debt Service Payments	**46,498**	44,024
Interest Coverage	**3.35**	3.02
Debt Service Coverage	**2.06**	1.88

As at and during the years ended December 31, 2011 and December 31, 2010, NPR complied with all externally imposed capital requirements and all covenants relating to its debt facilities.

24. OPERATING EXPENSES

During the year ended December 31, 2011, operating expenses on investment property generating rental revenue were $55.2 million (2010 – $47.8 million). Operating expenses on investment property not generating rental revenue were $nil during the year ended December 31, 2011 (2010 – $nil).

25. PERSONNEL COSTS

	2011	2010
Salaries, wages and benefits	**22,810**	19,875
Long-term benefits	**622**	503
Equity settled unit based compensation	**885**	954
Post employment benefits	**701**	639
	25,018	21,971
Personnel costs capitalized to investment properties	**(4,839)**	(4,924)
	20,179	17,047

26. UNREALIZED FAIR VALUE CHANGES

	Year ended December 31	
	2011	2010
Investment properties	**37,447**	(31,035)
Unit based payments	**(438)**	(4,747)
Class B units / Trust units	**(15)**	(82,147)
Net unrealized fair value increases (decreases)	**36,994**	(117,929)

27. CHANGES IN NON-CASH WORKING CAPITAL RELATED TO OPERATING ACTIVITIES

	Year ended December 31	
	2011	2010
Term deposits and short term investments	**(936)**	(532)
Accounts receivable	**(1,650)**	887
Prepaid expenses	**(304)**	116
Loans receivable	**15**	92
Trade and other payables	**3,052**	3,428
Forward utility contract	**(55)**	(97)
	122	3,894

28. OPERATING LEASES

NPR leases investment property held under operating leases (Note 6). Residential property leases generally have terms not exceeding one year. Commercial property operating leases have lease terms of between 1 to 15 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. Except as disclosed in Note 6, lessees do not have an option to purchase the property at the expiry of the lease period.

The future minimum lease payments are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Less than 1 year	**16,489**	14,758	14,807
Between 1 and 5 years	**37,232**	38,165	44,584
More than 5 years	**24,266**	34,110	32,420
	77,987	87,033	91,811

29. RELATED PARTY TRANSACTIONS

Related party transactions are conducted in the normal course of operations and are made on terms equivalent to those used in arms length transactions.

The Board of Trustees of the REIT and Board of Directors of NorSerCo accepted the resignation of the Chairman of AgeCare, which leases six seniors' properties from the REIT on August 4, 2011. As a result, transactions with Agecare after August 4, 2011 are no longer considered related party transactions. For the year ended December 31, 2011, rental revenue totalled $8.6 million (2010 – $12.6 million). Amounts outstanding in accounts receivable pertaining to this lease were $nil at December 31, 2011 (December 31, 2010 – $nil, January 1, 2010 – $nil). In addition, AgeCare was paid an annual fee for advisory services provided to NPR respecting prospective acquisitions of seniors' properties. For the year ended December 31, 2011, NPR paid $80,000 for these services (2010 – $120,000).

A company owned by a Trustee of NPR leases commercial space from NPR under normal commercial terms. NPR earned rental revenue from that arrangement of $478,000 for the year December 31, 2011 (2010 - $490,000). Amounts outstanding in accounts receivable pertaining to this lease were $nil at December 31, 2011 (December 31, 2010 – $nil).

Key management personnel are comprised of the REIT's Board of Trustees, NorSerCo's Board of Directors and the Entities' executive officers. The remuneration of NPR's key management personnel is as follows:

	2011	2010
Salaries, wages and benefits	**3,041**	2,355
Long-term benefits	**238**	273
Equity settled unit based compensation	**553**	724
Post employment benefits	**11**	11
	3,843	3,363

29. RELATED PARTY TRANSACTIONS (continued)

Other Related Party Transactions:

	Transactions for the year ended December 31		Balance Outstanding		
	2011	2010	**December 31, 2011**	December 31, 2010	January 1, 2010
Revenue					
Associates	**271**	276	**11**	20	21
Receipt of services					
Associates	**41**	41	**-**	-	-

30. SEGMENTED INFORMATION

Management primarily uses geographic segments (i.e. provinces and territories) to manage the properties. In addition, due to the differences between the commercial and the residential markets, management also reviews operations by market segment. Within the residential property market, execusuites and hotels and seniors residences are reviewed and managed as separate sub-segments.

NPR's residential properties are comprised of three components: apartments, town homes and single family rental units; NorSerCo's execusuite apartment rental units, where the rental periods range from a few days to several months; and seniors' properties where the properties are leased on a long term basis to qualified operators who provide services to individual residents. The commercial business segment is comprised of office, industrial and retail properties primarily in areas where NPR has residential operations.

Geographic Segments

Year ended December 31, 2011	**BC**	**AB & SK**	**NWT**	**Nunavut**	**Nfld**	**Total**
Rental revenue	**18,769**	**28,088**	**39,731**	**33,192**	**16,111**	**135,891**
Other property income	**845**	**1,060**	**1,502**	**514**	**434**	**4,355**
Operating expense	**(7,369)**	**(12,091)**	**(17,575)**	**(11,106)**	**(7,029)**	**(55,170)**
	12,245	**17,057**	**23,658**	**22,600**	**9,516**	**85,076**
Mortgage interest	**(2,872)**	**(6,615)**	**(5,441)**	**(4,514)**	**(2,653)**	**(22,095)**
Depreciation and amortization	**(128)**	**(247)**	**(593)**	**(1,674)**	**(713)**	**(3,355)**
INCOME BEFORE OTHER ITEMS	**9,245**	**10,195**	**17,624**	**16,412**	**6,150**	**59,626**

Year ended December 31, 2010	BC	AB & SK	NWT	Nunavut	Nfld	Total
Rental revenue	16,755	24,649	34,842	26,382	15,107	117,735
Other property income	559	162	2,589	491	121	3,922
Operating expense	(6,821)	(11,123)	(15,674)	(7,607)	(6,542)	(47,767)
	10,493	13,688	21,757	19,266	8,686	73,890
Mortgage interest	(2,517)	(6,126)	(5,319)	(3,773)	(2,541)	(20,276)
Depreciation and amortization	(140)	(292)	(551)	(822)	(681)	(2,486)
INCOME BEFORE OTHER ITEMS	7,836	7,270	15,887	14,671	5,464	51,128

30. SEGMENTED INFORMATION (continued)

	BC	AB & SK	NWT	Nunavut	Nfld	Total
December 31, 2011						
Total assets	**163,359**	**297,086**	**268,874**	**285,266**	**106,050**	**1,120,635**
Investment properties	**160,747**	**292,931**	**257,623**	**239,679**	**92,505**	**1,043,485**
Total liabilities	**65,386**	**159,644**	**110,666**	**122,987**	**52,604**	**511,287**
December 31, 2010						
Total assets	129,908	240,476	262,696	177,005	96,859	906,944
Investment properties	127,619	236,550	251,538	158,263	83,542	857,512
Total liabilities	51,262	135,366	107,026	75,765	50,574	419,993
January 1, 2010						
Total assets	127,029	259,451	240,467	162,430	96,537	885,914
Investment properties	124,369	254,939	230,905	143,144	82,948	836,305
Total liabilities	51,491	132,167	102,720	73,314	45,514	405,206

Business Segments

Year ended December 31, 2011	Multi-family	Execusuites & Hotels	Total Residential	Commercial	Total
Rental revenue	**100,806**	**12,104**	**112,910**	**22,981**	**135,891**
Other property income	**3,641**	**202**	**3,843**	**512**	**4,355**
Operating expenses	**(39,735)**	**(6,064)**	**(45,799)**	**(9,371)**	**(55,170)**
	64,712	**6,242**	**70,954**	**14,122**	**85,076**
Mortgage interest	**(18,382)**	**(951)**	**(19,333)**	**(2,762)**	**(22,095)**
Depreciation and amortization	**(1,008)**	**(2,193)**	**(3,201)**	**(154)**	**(3,355)**
INCOME BEFORE OTHER ITEMS	**45,322**	**3,098**	**48,420**	**11,206**	**59,626**

Year ended December 31, 2010	Multi-family	Execusuites & Hotels	Total Residential	Commercial	Total
Rental revenue	88,485	7,961	96,446	21,289	117,735
Other property income	3,168	107	3,275	647	3,922
Operating expenses	(35,335)	(3,858)	(39,193)	(8,574)	(47,767)
	56,318	4,210	60,528	13,362	73,890
Mortgage Interest	(16,939)	(971)	(17,910)	(2,366)	(20,276)
Depreciation and amortization	(888)	(1,463)	(2,351)	(135)	(2,486)
INCOME BEFORE OTHER ITEMS	38,491	1,776	40,267	10,861	51,128

30. SEGMENTED INFORMATION (continued)

	Multi-family	Execusuites & Hotels	Total Residential	Commercial	Total
December 31, 2011					
Total assets	**875,758**	**53,523**	**929,281**	**191,354**	**1,120,635**
Investment properties	**860,605**	**-**	**860,605**	**182,880**	**1,043,485**
Total liabilities	**432,176**	**19,872**	**452,048**	**59,239**	**511,287**
December 31, 2010					
Total assets	714,613	31,937	746,550	160,394	906,944
Investment properties	702,015	-	702,015	155,497	857,512
Total liabilities	359,246	15,611	374,857	45,136	419,993
January 1, 2010					
Total assets	696,779	32,188	728,967	156,947	885,914
Investment properties	682,489	-	682,489	153,816	836,305
Total liabilities	352,655	9,915	362,570	42,636	405,206

Reconciliation of reportable segment profit

	Year ended December 31	
	2011	2010
Total net income for reportable segments	**59,626**	51,128
Administration	**(7,379)**	(9,510)
Interest paid on operating facilities	**(622)**	(1,163)
Interest paid to unit holders	**(26)**	(14,324)
Interest revenue	**363**	280
Equity in earnings of joint ventures	**462**	241
Business acquisition transaction costs	**(825)**	-
Gain on sale of capital assets	**-**	25
Unrealized fair value changes	**36,994**	(117,929)
Income tax (expense) recovery	**(444)**	57,138
Net and comprehensive income (loss) from continuing operations	**88,149**	(34,114)

Reconciliation of reportable segment assets

	As at December 31		As at January 1
	2011	2010	2010
Total assets for reportable segments	**1,120,635**	906,944	885,914
Property, plant and equipment	**296**	590	290
Other long-term assets	**183**	183	429
Investment in joint ventures	**4,772**	4,615	4,674
Intangible assets	**138**	-	-
Term deposits and short term investments	**5,023**	4,087	3,555
Accounts receivable	**1,546**	995	910
Loans receivable	**264**	279	371
Prepaid expenses and other assets	**78**	210	197
Deferred taxes	**422**	440	-
Cash	**2,670**	2,921	-
Assets held for sale	**197,046**	209,752	207,958
Total Assets	**1,333,073**	1,131,016	1,104,298

30. SEGMENTED INFORMATION (continued)

Reconciliation of reportable segment liabilities

	As at December 31		As at January 1
	2011	2010	2010
Total liabilities for reportable segments	**511,287**	419,993	405,206
Bank indebtedness	**-**	-	1,713
Operating facilities	**21,000**	7,898	33,698
Trade and other payables	**3,635**	4,740	329
Distributions payable	**3,761**	3,499	3,096
Current taxes	**435**	245	261
Forward utility contract	**-**	55	152
Unit based payments	**4,697**	4,334	1,498
Trust and Limited Partnership Class B units	**2,015**	-	549,821
Deferred taxes	**-**	-	56,759
Liabilities related to assets held for sale	**95,591**	98,206	101,059
Total Liabilities	**642,421**	538,970	1,153,592

31. DISCONTINUED OPERATIONS

As per IFRS 5 – Non-current Assets Held For Sale and Discontinued Operations ("IFRS 5") an asset or disposal group is classified as 'held for sale' when it is available for immediate sale in its present condition and the sale is highly probable. NPR analyzes the following criteria when classifying a property as held for sale:

- management is committed to a plan to sell;
- an active program to identify a buyer has been initiated;
- subject to certain conditions, the sale is expected to occur within twelve months;
- the property is being marketed at a reasonable price; and
- actions required to complete the sale indicate that the plan will not be significantly changed or withdrawn.

A discontinued operation is a geographic or distinct business segment that has been disposed of or is classified as held for sale or is a subsidiary that was acquired for resale purposes.

All of NPR's seniors' properties meet the criteria of assets held for sale under IFRS 5 and the business segment has been classified as discontinued operations. The results of the discontinued operations included in the combined statements of income and comprehensive income, combined statements of cash flows and combined statement of financial position are set out below.

	Year ended December 31	
NET AND COMPREHENSIVE INCOME from discontinued operations	**2011**	2010
REVENUE		
Rental revenue	**18,415**	18,093
Operating expenses	**(415)**	(19)
	18,000	18,074

33. IFRS 1 RECONCILIATIONS (continued)

The Entities applied the following mandatory exemption from full retrospective application of IFRS when preparing these financial statements in accordance with IFRS 1:

(i) Estimates

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by NPR under Canadian GAAP are consistent with their application under IFRS.

(ii) Hedge accounting

Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), at that date. Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively. NPR had no transactions that qualified for hedge accounting.

This reconciliation of the Canadian GAAP combined statement of financial position at December 31, 2009 to the IFRS combined statement of financial position at January 1, 2010, together with the statement of retained earnings for NPR is shown on the following page, including separate explanations of the effects of applying IFRS.

NORTHERN PROPERTY REAL ESTATE INVESTMENT TRUST
Combined Statement of Financial Position

	Notes	December 31, 2009 GAAP Balance	IFRS Adjustment	January 1, 2010 IFRS Balance
ASSETS				
Non-current assets				
Investment properties	a)	863,720	(27,415)	836,305
Property plant & equipment	a)	-	44,166	44,166
Other long term assets	b)	4,539	(3,571)	968
Investment in joint ventures	c)	-	4,674	4,674
Loans receivable	d)	2,456	(2,085)	371
		870,715	15,769	886,484
Current assets				
Term deposits and short term investments		3,555	-	3,555
Accounts receivable	f)	4,158	(280)	3,878
Prepaid expenses and other assets	g)	5,088	(2,665)	2,423
Intangible assets	h)	4,851	(4,851)	-
Discontinued operations	31	-	207,958	207,958
		17,652	200,162	217,814
		888,367	215,931	1,104,298
LIABILITIES				
Non-current liabilities				
Trust and Limited Partnership Class B units	i)	-	549,821	549,821
Mortgages	j)	498,996	(153,762)	345,234
Deferred taxes	k)	43,751	13,290	57,041
		542,747	409,349	952,096
Current liabilities				
Bank indebtedness	l)	1,820	(107)	1,713
Operating facilities		33,698	-	33,698
Trade and other payables	m)	15,403	(1,421)	13,982
Distributions payable		3,096	-	3,096
Current portion of mortgages payable	j)	-	46,298	46,298
Unit based payments	i)	-	1,498	1,498
Forward utility contract		152	-	152
Intangible liabilities	h)	94	(94)	-
Discontinued operations	31	-	101,059	101,059
		54,263	147,233	201,496
		597,010	556,582	1,153,592
EQUITY				
Equity attributable to unitholders	n)	290,893	(342,060)	(51,167)
Non-controlling interest	n)	464	1,409	1,873
TOTAL EQUITY		291,357	(340,651)	(49,294)
		888,367	215,931	1,104,298

33. IFRS 1 RECONCILIATIONS (continued)

This reconciliation of the Canadian GAAP combined statement of financial position at December 31, 2010, together with the statement of retained earnings for NPR is shown on the following page, including separate explanations of the effects of applying IFRS.

NORTHERN PROPERTY REAL ESTATE INVESTMENT TRUST
Combined Statement of Financial Position

	Notes	December 31, 2010 GAAP Balance	IFRS Adjustment	December 31, 2010 IFRS Balance
ASSETS				
Non-current assets				
Investment properties	a)	893,347	(35,835)	857,512
Property plant & equipment	a)	-	43,754	43,754
Other long term assets	b)	6,058	(3,659)	2,399
Investment in joint ventures	c)	-	4,615	4,615
Loans receivable	d)	279	-	279
Deferred tax		-	440	440
		899,684	9,315	908,999
Current assets				
Cash	e)	3,216	(295)	2,921
Term deposits and short term investments		4,087	-	4,087
Accounts receivable	f)	2,916	(32)	2,884
Prepaid expenses and other assets	g)	5,154	(2,781)	2,373
Intangible assets	h)	3,671	(3,671)	-
Discontinued operations	31	-	209,752	209,752
		19,044	202,973	222,017
		918,728	212,288	1,131,016
LIABILITIES				
Non-current liabilities				
Trust and Limited Partnership Class B units	i)	-	-	-
Mortgages payable	j)	512,544	(152,980)	359,564
Deferred taxes	k)	253	(253)	-
		512,797	(153,233)	359,564
Current liabilities				
Operating facilities		7,898	-	7,898
Trade and other payables	m)	18,355	(360)	17,995
Distributions payable		3,499	-	3,499
Current portion of mortgages payable	j)	-	47,419	47,419
Unit based payments	i)	-	4,334	4,334
Forward utility contract		55	-	55
Intangible liabilities	h)	43	(43)	-
Discontinued operations	31	-	98,206	98,206
		29,850	149,556	179,406
		542,647	(3,677)	538,970
EQUITY				
Equity attributable to stapled unit holders	n)	375,699	214,327	590,026
Non-controlling interest	n)	382	1,638	2,020
TOTAL EQUITY		376,081	215,965	592,046
		918,728	212,288	1,131,016

33. IFRS 1 RECONCILIATIONS (continued)

Impact of IFRS on Financial Position

The following paragraphs quantify and describe the impact of significant differences between Canadian GAAP and IFRS on NPR's combined statement of financial position:

a) Investment property and property, plant and equipment

Management considers multi-unit residential, seniors' and commercial revenue producing properties to be investment properties under IAS 40, "Investment Property" ("IAS 40"). IAS 40 defines investment property as property that includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or for sale in the ordinary course of business. Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. However, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for its investment property. The fair value of NPR's investment property is the amount that the property should exchange at between a willing buyer and a willing seller in an arm's length transaction. Management elected to use the fair value model and implemented a combined external appraisal and internal calculation approach to fair value NPR's investment properties. Approximately 30% of properties in each of NPR's regions of operation were selected for independent external appraisal. The properties selected were comprised of apartment, single family, duplex, town home, commercial, seniors' and mixed use facilities. The services of three independent appraisal companies were commissioned during the fourth quarter of 2009, each with expertise in certain regions in which NPR operates, to perform external property appraisals. Management reviewed the external investment property appraisals for reasonableness and then applied externally obtained regional vacancy, management overhead and Cap Rate information to the stabilized net operating income for the remainder of NPR's investment properties on a regional basis to internally calculate fair values. This change in accounting policy has also been applied to investment properties held in NPR's joint ventures and subsidiaries. The adjustments from historical cost to fair value at transition to IFRS are recorded in retained earnings. Subsequent fair value gains and losses are recorded in net income in the period in which they arise.

Management has determined that the fair value of NPR's investment property portfolio at January 1, 2010 is approximately $1.1 billion (December 31, 2009 - $864 million) $207 million greater than the carrying value under Canadian GAAP. The adjustment to retained earnings under the fair value model represents the cumulative unrealized gain in respect of NPR's investment property, net of the de-recognition of related intangible assets and liabilities which are inherently reflected in the fair value of commercial property, and the reclassification of straight-line rent receivable.

NPR reports investment property at fair value each reporting period. The resulting changes in fair value of investment property are recorded in the statements of income. IAS 40 does not allow depreciation to be calculated and reported in the statements of income for any revenue producing properties classified as investment property. Management has determined that the fair value of NPR's investment property portfolio at December 31, 2010 is approximately $1.1 billion compared to the GAAP value of $893 million which is an increase of $201 million.

Investment properties	December 31, 2010	January 1, 2010
Fair value adjustment (1)	228,830	235,119
Reclassification to property, plant and equipment (2)	(43,754)	(44,166)
Investment in joint ventures (3)	(13,114)	(12,797)
Non-controlling interest (4)	(1,287)	(1,287)
Reclassification to tenant inducements (5)	(2,057)	(603)
Reclassification to other long term assets (6)	(253)	(128)
Discontinued operations (7)	(204,200)	(203,553)
	(35,835)	(27,415)

1. Fair value adjustment – Revenue producing properties that were reported at historical cost under GAAP are reported at fair value under IFRS. The net increase in reported value is $228.8 million (January 1, 2010 - $235.1 million).
2. Reclassification to property, plant and equipment – NPR has regional offices and warehouse facilities in each of its operating regions. Management also classified the execusuite business segment as PP&E. These assets were included in the building costs under IFRS. NPR also provides residential housing to staff. The fair value of these assets reclassified to property, plant and equipment at transition to IFRS was $43.8 million (January 1, 2010 - $44.2 million).

33. IFRS 1 RECONCILIATIONS (continued)

3. Investment in joint ventures – The operations of ICP and ICS were proportionately consolidated under Canadian GAAP. IFRS 11 Joint Arrangements ("IFRS 11") was released May 12, 2011, becomes effective January 1, 2013 and requires the use of the equity method of accounting for interests in joint venture entities, thereby eliminating the proportionate consolidation method. In anticipation of IFRS 11, NPR has reported its investment in joint ventures using the equity method of accounting, as permitted in IAS 31. The value of NPR's investment properties as reported under Canadian GAAP has decreased by $13.1 million (January 1, 2010 - $12.8 million) at transition to IFRS for the change in accounting method used for ICP and ICS.
4. NPR owns and operates certain investment properties using partnership and joint venture arrangements. GoGa Cho is 55% owned by NPR and has been consolidated reporting a 45% non-controlling interest; Aqsaqniq is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest; and Icicle, which was proportionately consolidated under GAAP, is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest in this opening statement of financial position.
5. Reclassification to tenant inducements - Where IAS 40 applies and investment properties are measured at fair value, the tenant inducements are considered in the cash inflows modeled to measure the fair value of the investment property, forming part of the in-place operating leases. In accordance with IAS 40.50(c), lease incentive assets are separated for presentation on the statement of financial position by deducting this amount from the fair value of the property to avoid double counting of assets. NPR has reclassified $2.1 million (January 1, 2010 - $603,000) of tenant inducements to avoid double counting of assets.
6. Reclassification to other long term assets - deferred recoverable costs – These costs have been reclassified under IAS 40 and IAS 17. Deferred recoverable costs are those costs incurred for capital maintenance performed on commercial buildings and regarded by NPR as recoverable costs from commercial tenants. These costs are amortized to operating income and are included in the calculation of annual recoverable operating costs.
7. Discontinued operations – The seniors' business segment has bee reclassified as discontinued operations.

NPR reports investment property at fair value and restated its comparable 2010 investment property using a combined external appraisal and internal valuation approach. The resulting changes in fair value of investment property were recorded in the deficit at transition to IFRS. As a result of electing to report investment property at fair value, depreciation is no longer calculated and reported in the statement of income for any revenue producing properties classified as investment property. The weighted average Cap Rate at December 31, 2010 was 8.8% (January 1, 2010 - 8.8%).

Property, plant and equipment (PP&E)

NPR provides rental accommodations to its employees and occupies administrative office and warehouse space in the regions in which it operates. NPR also operates execusuites and hotels that meet the criteria of income properties because of the length of stays for the majority of their customers. IAS 40.9(c) defines these types of capital assets as owner-occupied property and requires that these assets be reported under IAS 16 "Property, Plant and Equipment" ("IAS 16"). IAS 16 defines PP&E as tangible assets used in the production or supply of goods and services or for administrative purposes, and have an expected life of more than one period. Owner-occupied property and staff housing in the amount of $13.0 million has been reclassified from investment property to PP&E in accordance with IAS 16 on transition to IFRS. Execusuite property in the amount of $31.2 million has been reclassified as PP&E in accordance with IAS 16 on transition to IFRS.

NPR has also measured staff housing, owner-occupied property and execusuites and hotels at fair value as at the transition date and used that amount as the deemed cost in the opening IFRS statement of financial position. Management has identified the significant asset components of PP&E and their appropriate useful lives for the purpose of depreciating PP&E as required by IAS 16. These assets are subject to a review for impairment annually. NPR will continue to report PP&E using the cost model, measuring each class at cost less accumulated depreciation and any impairment losses recognized. Vehicles, computer and other equipment are reported at the Canadian GAAP amortized cost value at January 1, 2010 as this is an approximation to fair value.

NPR experiences monthly changes in staff rental accommodations due to move-ins, move-outs and transfers between residential units. The estimated cost that would be incurred to implement the internal processes required to track and value these transfers between Investment Property and PP&E significantly exceed the benefits provided to users of these financial statements. Since staffing levels and internally used space do not change materially on a monthly basis, management decided to allocate employee accommodations and administrative and warehouse space to PP&E at transition to IFRS and not to revise these allocations unless a significant change in the number of units or square footage occupied occurs.

33. IFRS 1 RECONCILIATIONS (continued)

Property, plant and equipment	December 31, 2010	January 1, 2010
Reclassification from investment properties(1)	48,580	46,582
Asset impairment (2)	(148)	(148)
Investment in joint ventures (3)	(21)	(21)
	48,411	46,413
Accumulated Depreciation		
Accumulated Depreciation	(4,657)	(2,247)
	43,754	44,166

1) PP&E for owner-occupied property includes land, buildings and furniture, fixtures and equipment reclassified from investment property at transition to IFRS in the amount of $48.6 million (January 1, 2010 - $46.6 million). During 2010 NPR acquired additional property, plant and equipment in the amount of $949,000. Management has determined that the portion of the fair value adjustment of investment property that applies to furniture, fixtures and equipment for owner-occupied property was considered to be immaterial in its application at the property level.
2) Asset impairment - IAS 36.9 requires that an asset be assessed for impairment at the end of each reporting period. Certain assets purchased as part of a previous business acquisition were tested for impairment. It was determined that the carrying value of the equipment exceeded the recoverable amount.
3) Investment in joint ventures – The operations of ICP and ICS were proportionately consolidated under Canadian GAAP. IAS 31 – Interests in Joint Ventures ('IAS 31") allows proportionate consolidation of jointly controlled entities. In anticipation of IFRS 11, NPR has reported its investment in joint ventures using the equity method of accounting, as permitted in IAS 31. The value of NPR's property, plant and equipment as reported under Canadian GAAP has decreased by $21,000 (January 1, 2010 - $21,000) for the change in accounting method used for ICP & ICS.

b) Other long term assets

Paragraph 52 of IAS 17 "Leases" ("IAS 17") states that, "Indirect costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized as an expense over the term on the same basis as the lease income". For Canadian GAAP a separate intangible asset was presented on the statement of financial position, whereas for IFRS, the deferred leasing costs form a component of the total fair value of the investment property and are not accounted for separately.

NPR's commercial leases on commercial property can have three types of deferred leasing costs:

1) Tenant inducements - Where IAS 40 applies and investment properties are measured at fair value, the tenant inducements are considered in the cash inflows modeled to measure the fair value of the investment property, forming part of the in-place operating leases. In accordance with IAS 40.50(c), lease incentive assets are separated for presentation on the statement of financial position by deducting this amount from the fair value of the property to avoid double counting of assets;

2) Tenant improvements - Tenant improvements which benefit the tenant are treated as an incentive and netted against revenue in accordance with SIC-15 "Operating Lease – Incentives". Where the tenant improvements are deemed the assets of the lessor, then IAS 40 applies and the investment property is measured at fair value and the tenant improvements form part of the fair value of the property, and;

3) Deferred recoverable costs – These costs have been reclassified under IAS 40 and IAS 17. Deferred recoverable costs are those costs incurred for capital maintenance performed on commercial buildings and regarded by NPR as recoverable costs from commercial tenants. These costs are amortized to operating income and are included in the calculation of annual recoverable operating costs.

33. IFRS 1 RECONCILIATIONS (continued)

Other long term assets	December 31, 2010	January 1, 2010
Deferred rent receivable (1)	(11)	(2)
Deferred recoverable costs (2)	253	129
Tenant inducements (3)	2,052	669
Discontinued operations	(5,408)	(4,302)
	(3,114)	(3,506)
Accumulated amortization		
Accumulated amortization	(545)	(65)
	(3,659)	(3,571)

1) Deferred rent receivable – ICS and ICP were proportionately consolidated under Canadian GAAP and are equity consolidated as permitted in IAS 31. This change amounted to a decrease of $11,000 as at December 31, 2010.
2) Deferred recoverable costs – These costs have been reclassified under IAS 40 and IAS 17. Deferred recoverable costs are those costs incurred for capital maintenance performed on commercial buildings and regarded by NPR as recoverable costs from commercial tenants. These costs are amortized to operating income and are included in the calculation of annual recoverable operating costs.
3) Tenant inducements – Where IAS 40 applies and investment properties are measured at fair value these amounts are considered in the cash inflows modeled to measure the fair value of the investment property forming part of the in-place operating leases. NPR has reclassified $2.1 million at December 31, 2010 (January 1, 2010 - $669,000) of tenant inducements to avoid double counting of assets.

c) Investment in joint ventures

IFRS 1 states that a first-time adopter may elect not to apply IFRS 3, "Business Combinations" ("IFRS 3") retrospectively to business combinations that occurred before the date of transition to IFRS. Both IFRS and Canadian GAAP require the use of the acquisition method of accounting for all business combinations, however there are differences between the two frameworks. Under IFRS transaction costs are expensed immediately while under Canadian GAAP the costs are included in the cost of the assets acquired. This may have a material negative impact on net income, FFO, AFFO and EBITDA in the year of acquisition. IFRS requires the purchaser to measure any non-controlling interest in the acquiree at either fair value or at the non-controlling interest's proportionate share of the fair value of the acquirees' identifiable net assets. Canadian GAAP required the minority interest to be measured at the non-controlling interest's proportionate share of the historical carrying value of the acquirees' identifiable net assets.

Management has elected not to apply IFRS 3 retrospectively to business combinations that occurred prior to the date of transition to IFRS. NPR's jointly controlled entities and subsidiaries have also transitioned to IFRS as of January 1, 2010.

IAS 31 allows proportionate consolidation of jointly controlled entities. On May 12, 2011 the IASB issued IFRS 11, which

33. IFRS 1 RECONCILIATIONS (continued)

g) Prepaid expenses and other assets

Prepaid expenses and assets	December 31, 2010	January 1, 2010
Prepaid equity leases (1)	(24)	(1,997)
Interest in joint ventures (2)	(2,265)	(27)
Other - Aqsaqniq (3)	(423)	(500)
Other - Icicle (3)	(33)	(38)
Discontinued operations	(36)	(103)
	(2,781)	(2,665)

1. Equity leases – IAS 40 defines investment property as property that includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or for sale in the ordinary course of business. In the Nunavut region there is very little deeded land. The majority of our investment property in this region includes equity leases on land where substantially all benefits of ownership are those of the lessee. Under IFRS NPR has reclassified the unamortized balance of the prepaid equity lease payments as a component of the fair value of our investment property.
2. Interest in joint ventures – The operations of ICP and ICS were proportionately consolidated under Canadian GAAP. NPR has reported its jointly controlled entities using the equity method of accounting. The value of NPR's prepaid expenses as reported under Canadian GAAP has decreased by $27,000 at transition to IFRS for the change in accounting used for ICP and ICS.
3. Other - Aqsaqniq and Icicle – Under IAS 27 the business partnership with Aqsaqniq and Icicle are regarded as investments in subsidiaries. Aqsaqniq is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest; and Icicle is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest.

h) Intangible assets and liabilities

Intangible assets and liabilities (1)	December 31, 2010	January 1, 2010
Above-market leases	(14)	(34)
In-place leases	(3,064)	(4,008)
Lease origination costs	(593)	(809)
	(3,671)	(4,851)
Below-market leases	(43)	(94)
	(43)	(94)

1. With adoption of IFRS, NPR has derecognized intangible assets and liabilities relating to tenant leases. These are now considered in the determination of the fair value of NPR's investment properties. The result was a decrease in intangible assets of $3.7 million (January 1, 2010 - $4.8 million) and a decrease in intangible liabilities of $43,000 (January 1, 2010 - $94,000), respectively at January 1, 2010.

i) Financial instruments – NPR Trust and Class B Limited Partnership units

IAS 32 "Financial Instruments: Disclosure and Presentation"; IFRS 9 "Financial Instruments" (replacement of IAS 39), and; IAS 7 "Financial Instruments: Disclosures",. These standards establish the principles for recognizing, measuring and presenting financial instruments as assets, liabilities or equity and offsetting financial assets and liabilities.

Upon initial recognition, a financial instrument should be classified as a financial liability, a financial asset or equity in accordance with the substance of the contractual arrangement applying the definitions in these sections. NPR will assess its contractual arrangements and determine whether any give rise to treatment as a financial asset, financial liability or equity.

33. IFRS 1 RECONCILIATIONS (continued)

Management has determined that NPR's Trust units and Class B Exchangeable Limited Partnership units ("Class B units") do not qualify for equity treatment at transition to IFRS under IAS 32. NPR Trust units cannot be treated as equity because of the requirement to pay annual distributions equal to taxable income as per NPR's DOT which implies that NPR Trust units are debt because of the contractual obligation to deliver cash or another financial asset to another entity. The Class B units have the same requirement to pay distributions and also may be redeemed for NPR Trust units. Canadian GAAP allows for the treatment of multiple classes of redeemable trust units or Class B units to be treated as equity. IAS 32 stipulates that classes of equity must be identical to be treated as equity. The disclosure of separate classes of equity under Canadian GAAP implies that redeemable trust units and Class B units are somehow different and therefore would be treated differently under IAS 32. The ability to exchange Class B units for Trust units may imply a liability element exists because it imposes an unavoidable obligation to deliver units of the trust (i.e., a financial instrument of another entity). NPR has reported its Trust units and Class B units as liabilities at a fair value of $549.8 million at transition to IFRS.

Trust and Class B Limited Partnership Units	December 31, 2010	January 1, 2010
Reclassification from Stapled Unit Holders' equity	-	368,690
Fair value adjustment	-	181,131
	-	549,821

Unit based compensation in the form of options or deferred units are classified as equity under Canadian GAAP. Since unit based compensation is to be settled by issuance of a financial liability itself, such unit based compensation would be classified as a financial liability. Measurement is based upon the fair value of the trust units using the Black Scholes options-pricing model, recognized over the vesting period at each reporting period.

Unit based compensation	December 31, 2010	January 1, 2010
Reclassification from Unitholders' equity	2,091	1,135
Fair value adjustment	2,243	363
	4,334	1,498

The IASB has issued IFRS 9, which will become effective January 1, 2015 as a replacement for IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new requirements address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. This is often referred to as the 'own credit' problem. An entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income ("OCI") section of the statement of income, rather than within the statement of earnings.

The IASB permits early adoption of the IFRS 9 and requires transition disclosure by all entities adopting the new IFRS. NPR has adopted the IFRS 9 requirements for financial assets and financial liabilities.

j) Mortgages

Mortgages payable	December 31, 2010	January 1, 2010
Mortgages payable (1)	(60,559)	(54,144)
Discontinued operations	(92,421)	(99,618)
	(152,980)	(153,762)
Current portion of long term debt – mortgage (1)	47,419	46,298
	(105,561)	(107,464)

1. Under IFRS a classified statement of financial position is presented requiring mortgages to be allocated between the current and non-current portions. The reported balances of property specific mortgages and subsidiary borrowings at December 31, 2010 decreased by approximately $8.0 million (January 1, 2010 - $7.6 million) due to the equity reporting of jointly controlled entities under IAS 31 compared to balances reported due to proportionate consolidation of jointly controlled entities in accordance with Canadian GAAP.

33. IFRS 1 RECONCILIATIONS (continued)

k) Deferred taxes

NPR is an open ended mutual fund trust which is not a taxable entity. The deferred tax liability under IFRS will generally be determined by applying tax rates to temporary differences based on the general expectation that the method of realization is through owning and operating our properties rather than through sale. NPR also has certain corporate subsidiaries which are subject to income tax on their respective taxable income at the applicable legislated tax rates.

IFRS requires NPR to recognize deferred income tax assets and liabilities based on estimated temporary differences expected as at January 1, 2010. Under the current legislation, NPR did not appear to qualify for the REIT Exemption. The deferred income tax provision arises from temporary differences between the estimated accounting and tax values of NPR's assets and liabilities at January 1, 2010 and has been calculated using expected tax rates between 19.1% and 28.4%. A deferred tax provision in the amount of $57.0 million has been recorded in the opening statement of financial position.

As a result of NPR's internal reorganization as set out in the Arrangement, which was approved by unitholders at a special meeting held on November 25, 2010, the REIT meets the definition of a Real Estate Investment Trust as defined in the Income Tax Act.

l) Bank indebtedness

The value of NPR's bank indebtedness as reported under Canadian GAAP has decreased at December 31, 2010 by nil (January 1, 2010 by $107,000) to IFRS for the change in accounting method used under IAS 31 for ICP, ICS, Aqsaqniq and Icicle. Under Canadian GAAP the operations of ICP, ICS and Icicle were proportionately consolidated while the equity method of accounting was used for Aqsaqniq.

m) Trade and other payables

The value of NPR's trade payables as reported under Canadian GAAP has decreased at December 31, 2010 by $360,000 (January 1, 2010 by $1.4 million) for the change in accounting method used under IAS 31 for ICP, ICS, Aqsaqniq and Icicle. Under Canadian GAAP the operations of ICP, ICS and Icicle were proportionately consolidated while the equity method of accounting was used for Aqsaqniq.

n) Reconciliation of equity as reported under Canadian GAAP and IFRS

The following is a reconciliation of NPR's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at the transition date:

Thousands of dollars)	Notes	Trust Units	Contributed Surplus	Cumulative Net Earnings	Cumulative Distributions to Unitholders	Equity Attributable to Unitholders	Non-Controlling Interests	Total Equity
As reported under Canadian GAAP – December 31, 2009		**368,690**	**2,109**	**107,385**	**(187,291)**	**290,893**	**-**	**290,893**
Reclassification of non-controlling interests to equity	(i)	-	-	-	-	-	464	464
Investment property fair value adjustments	(ii)	-	-	245,741	-	245,741	1,287	247,028
Asset impairment	(iv)	-	-	(148)	-	(148)	-	(148)
NPR unit options	(v)	-	(1,135)	-	-	(1,135)	-	(1,135)
Unvested LTIP units	(v)	-	(974)	-	-	(974)	-	(974)
Trust unit reclassification to liabilities	(vi)	(368,690)	-	-	-	(368,690)	-	(368,690)
Unit options & LTIP fair value adjustment	(vi)	-	-	(180,520)	-	(180,520)	-	(180,520)
Distributions reclassification as cumulative net earnings	(vi)	-	-	(187,291)	187,291	-	-	-
Recovery of deferred taxes	(vii)	-	-	(34,887)	-	(34,887)	(160)	(35,047)
Investment in joint ventures	(viii)	-	-	(1,163)	-	(1,163)	-	(1,163)
Business consolidation	(i)(iix)	-	-	(284)	-	(284)	282	(2)
As reported under IFRS – January 1, 2010		**-**	**-**	**(51,167)**	**-**	**(51,167)**	**1,873**	**(49,294)**

33. IFRS 1 RECONCILIATIONS (continued)

The following is a reconciliation of NPR's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at December 31, 2010:

(Thousands of dollars)	Notes	Trust Units	Contributed Surplus	Cumulative Net Earnings	Cumulative Distributions to Stapled Unit Holders	Equity Attributable to Stapled Unit Holders	Non-Controlling Interests	Total Equity
As reported under Canadian GAAP – December 31, 2010		**431,695**	**2,091**	**174,941**	**(233,028)**	**375,699**	**-**	**375,699**
Reclassification of non-controlling interests to equity	(i)	-	-	-	-	-	382	382
Investment property fair value adjustments	(ii)	-	-	243,055	-	243,055	1,287	244,342
Reclassification of loan receivable	(iii)	-	-	97	-	97	-	97
Asset impairment	(iv)	-	-	(148)	-	(148)	-	(148)
NPR unit options reclassified as liabilities	(v)	-	(1,297)	-	-	(1,297)	-	(1,297)
Unvested LTIP units reclassified as liabilities	(v)	-	(794)	-	-	(794)	-	(794)
Unit options & LTIP exchanged for trust units at fair value	(vi)	265,192	-	-	-	265,192	-	265,192
Unit options & LTIP fair value adjustment	(vi)	-	-	(267,413)	-	(267,413)	-	(267,413)
Distributions reclassified as cumulative net earnings	(vi)	-	-	(187,291)	187,291	-	-	-
Reclassification of distributions paid	(vi)	-	-	(14,323)	14,323	-	-	-
Recovery of deferred taxes	(vii)	-	-	(21,355)	-	(21,355)	-	(21,355)
Investment in joint ventures	(viii)	-	-	(2,659)	-	(2,659)	-	(2,659)
Business consolidation	(i)(ix)	-	-	(351)	-	(351)	351	-
As reported under IFRS – December 31, 2010		**696,887**	**-**	**(75,447)**	**(31,414)**	**590,026**	**2,020**	**592,046**

(i) Reclassification of non-controlling interests to equity

IAS 1 Presentation of Financial Statements ("IAS 1") requires non-controlling interests to be classified as a component of equity. Under Canadian GAAP non-controlling interest was classified outside of equity.

(ii) Investment property

NPR considers its residential (multi-family and seniors) and commercial properties to be investment properties under IAS 40. Investment property includes land and buildings located in the Northwest Territories, Nunavut, British Columbia, Alberta and Newfoundland held primarily to earn rental income or for capital appreciation or both and is not used for administrative or staff housing purposes. Investment property is initially reported at cost. Subsequent to initial recognition, an entity is required to choose either the cost or fair value model to account for investment property. After review and analysis of the IAS 40 policy choices, NPR concluded that it would change its accounting policy in respect of investment property from depreciated historical cost to the fair value model, on the basis that this would reflect more relevant information in relation to these properties. The adjustment to retained earnings represents the cumulative unrealized gain in the fair value of NPR's residential and commercial property; net of the de-recognition of related intangible assets and liabilities which are reflected in the fair value of commercial property; the de-recognition of long term prepaid land leases in Nunavut which are inherent in the fair value of residential and commercial property; and, the recognition of deferred rent receivable.

33. IFRS 1 RECONCILIATIONS (continued)

The fair value of NPR's investment property is the amount that the property should exchange at between a willing buyer and a willing seller in an arm's length transaction. A combined external appraisal and internal valuation approach was used to value investment property. Management initially categorized investment properties into the following: multi-family, townhome, single family, seniors mixed use and commercial facilities. External appraisers with expertise in each of the regions in which NPR operates were engaged to fair value approximately one third of the investment properties in each category and region. Management reviewed the external investment property appraisals for reasonableness and then applied externally obtained regional vacancy and CAP rate information to the remainder of NPR's investment properties on a regional basis to calculate their fair values. This change in accounting policy has also been applied to investment properties held in NPR's joint ventures and equity reported investments.

(iii) Reclassification of loan receivable

Renovations reclassified as an asset addition during the last quarter of 2010 have been reclassified at transition to IFRS.

(iv) Asset impairment

IAS 36.9 requires that an asset be assessed for impairment at the end of each reporting period. Certain assets purchased as part of a previous business acquisition were tested for impairment. It was determined that the carrying value of the assets exceeded the recoverable amount.

(v) Unit based payments

Unit option and LTIP unit based payments vest in tranches; one third immediately, one third after twelve months and one third after twenty four months. Under IFRS a financial liability is recognized for the unvested portion of unit options and LTIP. As at Dec. 31, 2010, $1.3 million (January 1, 2010 – $1.1 million) of stock option expense previously reported in contributed surplus was reclassified to a liability account; $794,000 for 52,496 unvested LTIP units (January 1, 2010 - $974,000, for 48,473 unvested LTIP units) were reclassified to a liability account. The financial liability was fair valued at transition to IFRS.

(vi) Financial instruments

IAS 32.16 defines a financial instrument as an equity instrument rather than a financial liability if, and only if, both of the following conditions are met.

a) The instrument includes no contractual obligation:
   - to deliver cash or another financial asset to another entity; or
   - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer.

b) If the instrument will or may be settled in the issuer's own equity instruments, it is:
   - a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
   - a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

NPR Trust units and Class B units did not meet the IFRS definition of equity under IAS 32.16 at January 1, 2010 because of the DOT requirement to pay distributions equal to taxable income. Therefore both are classified as financial liabilities at transition to IFRS. In addition, the units have been revalued to fair value using the closing trading price for December 31, 2009.

(vii) Deferred taxes

NPR has certain corporate subsidiaries which are subject to income tax on their respective taxable income at the applicable legislated tax rates.

IFRS requires NPR to recognize deferred income tax assets and liabilities based on estimated temporary differences expected as at December 31, 2010 and January 1, 2010. The deferred income tax provision arises from temporary differences between the estimated accounting and tax values of NPR's assets and liabilities at January 1, 2010 and has been calculated using the expected tax rates of 19.13% to 28.4%. NPR's deferred income tax liability related primarily to the increased carrying values of its investment properties at transition to IFRS. Deferred income taxes have also been recognized on the differences between the tax values and the carrying values of the investment property in NPR's equity investments and subsidiary companies. The deferred income tax liability under IFRS is determined by applying tax rates to temporary differences that are consistent with NPR's expectation that the method of realization will be through sale rather than through owning and operating its properties.

33. IFRS 1 RECONCILIATIONS (continued)

(viii) Investment in joint ventures

NPR is a 50% joint venture partner in two jointly controlled entities; ICS and ICP which were proportionately consolidated under Canadian GAAP.

IAS 31 allowed proportionate consolidation of jointly controlled entities. On May 12, 2011 the IASB issued IFRS 11, which requires jointly controlled entities to be reported using the equity method of accounting effective January 1, 2013 with early adoption allowed. In anticipation if IFRS 11, NPR has elected to use the equity method to account for its investment in joint ventures.

(ix) Business consolidation

NPR owns and operates certain investment properties using partnership and joint venture arrangements. GoGa Cho is 55% owned by NPR and has been consolidated reporting a 45% non-controlling interest; Aqsaqniq is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest; and Icicle is 49% owned by NPR and has been consolidated reporting a 51% non-controlling interest in this opening statement of financial position.

NPR applied IAS 27; IAS 27.13 to IAS 27.17 defines control, identifying when a subsidiary should be consolidated. Control is deemed to exist if more than half of the voting power of an entity is owned directly or indirectly. Control also exists when less than half of the voting rights are owned when there is:

a) Power over more than half of the voting rights by virtue of an agreement with other investors;
b) Power to govern the financial and operating policies of the entity under an agreement;
c) Power to appoint the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
d) Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Management has concluded that NPR controls the GoGa Cho and effectively controls the Aqsaqniq and Icicle subsidiaries and has consolidated their operations reporting the appropriate non-controlling interest.

Non-controlling interest	Aqsaqniq	Icicle	GoGa Cho	Total
As reported under Canadian GAAP – December 31, 2009	**-**	**-**	**464**	**464**
Partner's distributions	(92)	-	-	(92)
Partner's equity – deferred taxes	(38)	11	(133)	(160)
Partner's equity – FV of assets	228	32	1,027	1,287
Partner's equity – retained earnings	262	112	-	374
As reported under IFRS – January 1, 2010	**360**	**155**	**1,358**	**1,873**

Non-controlling interest	Aqsaqniq	Icicle	GoGa Cho	Total
As reported under Canadian GAAP – December 31, 2010	**-**	**-**	**382**	**382**
Partner's distributions	(92)	-	-	(92)
Partner's equity – deferred taxes	-	-	-	-
Partner's equity – FV of assets	228	32	1,027	1,287
Partner's equity – retained earnings	270	115	58	443
As reported under IFRS – December 31, 2010	**406**	**147**	**1,467**	**2,020**

33. IFRS 1 RECONCILIATIONS (continued)

o) Reconciliation of net earnings under Canadian GAAP to IFRS

	Note	Year ended December 31, 2010
Net earnings as reported under Canadian GAAP		67,556
Differences increasing (decreasing) reported amounts		
Subsidiaries and joint ventures	(i)	
Joint ventures		(1,052)
Subsidiaries		233
Investment properties	(ii)	
Fair value loss		(32,929)
Reverse Canadian GAAP depreciation expense		29,985

34. PRIOR PERIOD RESTATEMENT (continued)

The effect of the restatement on the January 1, 2010 opening statement of financial position and the December 31, 2010 statement of financial position is summarized below:

	December 31, 2010	January 1, 2010
Decrease in investment property	(1,232)	(31,344)
Increase in property, plant and equipment	1,126	31,344
Increase in accumulated depreciation	(1,424)	-
Decrease in investment in joint ventures	(728)	-
Increase in deferred tax asset	190	250
Net (decrease) increase in assets	(2,068)	250
(Decrease) increase in equity attributable to stapled unit holders.	(2,068)	250
Increase in depreciation expense	(1,424)	-
Decrease in deferred income tax expense	190	-
Decrease in equity in earnings of joint ventures	(728)	-
Increase in unrealized fair value changes	(106)	-
Decrease in net and comprehensive income	(2,068)	-

TRUSTEES OF NPR

Douglas H. Mitchell, Q.C.
Chair of the Trust

B. James Britton
President, Chief Executive Officer and Trustee

John C. Charles, CA*
Trustee

Kenn Harper
Trustee

Dennis J. Hoffman, CA
Trustee

Kabir Jivraj, MBBS**
Trustee

Dennis G. Patterson, LLB
Trustee

C. Donald Wilson
Trustee

DIRECTORS OF NORSERCO INC.

Douglas H. Mitchell, Q.C.
Chair of the Corporation

B. James Britton
President, Chief Executive Officer and Director

John C. Charles, CA*
Director

Kenn Harper
Director

Dennis J. Hoffman, CA
Director

Kabir Jivraj, MBBS**
Director

Dennis G. Patterson, LLB
Director

C. Donald Wilson
Director

Kevin Grayston, CA
Director

*Mr. John C. Charles resigned from the Boards of Northern Property REIT and NorSerCo Inc. on September 12, 2011.
**Dr. Kabir Jivraj resigned from the Boards of Northern Property REIT and NorSerCo Inc. on August 4, 2011.

2011 OFFICERS

B. James Britton
President and CEO

Todd R. Cook, CA
Executive Vice President

David Leiman, CA
Chief Financial Officer

Richard Anda
Vice President, Business Development

Alan Vaughan
Vice President

Barbara Lavery
Corporate Secretary

Corporate Information

ANNUAL GENERAL MEETING

Wednesday, May 9, 2012, 1:30 pm
The Ranchmen's Club
710 – 13th Avenue S.W.
Calgary, Alberta T2R 0K9

STOCK EXCHANGE

Toronto Stock Exchange (TSX)
Trading Symbol: NPR.UN

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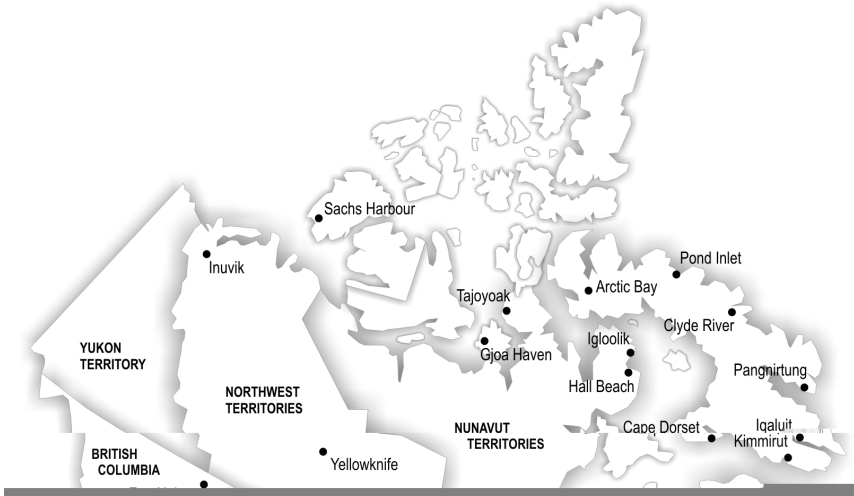

Northern Property Real Estate Investment Trust owns and operates rental real estate in secondary markets in Canada. NPR has significant multi-family residential real estate investments in Alberta, a growing position in British Columbia, and is the largest multi-family residential landlord in each of the Northwest Territories, Nunavut and the Province of Newfoundland and Labrador, and has recently entered into the Saskatchewan market. NPR's income producing portfolio is primarily residential including multi-family apartment rental units, furnished execusuites and master leased seniors' buildings. We also have a portfolio of commercial buildings focused on government tenancies predominantly located in Canada's far north.

Northern Property
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