



Quarterly Report to Unitholders

For the period ended June 30, 2002

H&R Real Estate Investment Trust (REIT) reported financial results in the second quarter ended June 30, 2002 that reflect the continued growth and stability generated from our focused operating strategy.

Financial Results

The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles. Our results continue to reflect a secure and growing portfolio and a proven operating strategy.

In addition, Distributable Income increased 26% in the second quarter, driven by 49% growth in Rentals From Income Properties resulting primarily from key, core business acquisitions. We are therefore pleased for our unitholders that Distributable Income per unit increased almost 6% in the first half of this year. Over the past two years, H&R has produced steady growth in both distributable income and unit value while the TSE Composite Index has dropped 30%.

Operating Strategy

H&R unitholders benefit from the REIT's long-standing strategy based on Focus, Quality, Discipline and Stability. The REIT delivers consistent results and maximizes return on equity by leasing its commercial properties to highly creditworthy tenants through long-term leases matched with long-term, fixed-rate financing. As a result, the REIT's overall average occupancy rate remained at 99%, while the average term to maturity was 12.2 years for leases and 13.9 years for mortgages. The REIT also has a strong balance sheet with a ratio of debt to gross book value of 58%.

Acquisitions

During the quarter, H&R added two assets to its core business. The first was a \$3.6 million, 43,000 square foot industrial property in Calgary, leased for a term of 20 years. The REIT also acquired a \$12 million retail property in Kelowna, British Columbia, with a 110,000 square foot large-format Revy/Rona home improvement store. The remaining lease term for Revy/Rona is 19 years, with 10% rental rate escalations every five years. Permanent financing is in place on the Kelowna property.

Subsequent to quarter-end, the REIT finalized its second acquisition in the United States – a state-of-the-art distribution centre located in Marion, Illinois. The property, acquired at a price of approximately CAD\$47 million, comprises almost 1,000,000 square feet and is leased for 19 more years to Circuit City - the second largest retailer of consumer electronic products in the U.S. The property is financed on a non-recourse basis at 6.85% over a 10-year term. The acquisition is estimated to generate a cash-on-cash return of 9.25% and a levered return of 13.7%.

After accounting for these transactions, H&R continues to maintain an acquisition capacity of approximately \$200 million.

Tom Hofstedter

August 15, 2002

Unaudited Consolidated Financial Statements of

H&R REAL ESTATE INVESTMENT TRUST

For the six months ended June 30, 2002

H&R REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheet and Statement of Unitholders' Equity

(In thousands of dollars)

	June 30 2002 (unaudited)	December 31 2001 (audited)	June 30 2001 (unaudited)
Assets			
Income properties (note 3)	\$1,837,462	\$1,388,782	\$1,359,217
Mortgages receivable (note 4)	65,879	80,575	82,819
Deferred expenses (note 5)	28,530	21,053	19,480
Accounts receivable	5,632	4,192	3,507
Accrued rent receivable	10,120	9,328	8,535
Prepaid expenses and sundry assets	12,657	6,595	8,875
Cash, short-term investments and funds in escrow	8,278	24,331	3,456
	<u>\$1,968,558</u>	<u>\$1,534,856</u>	<u>\$1,485,889</u>

Liabilities and Unitholders' Equity

Liabilities:

Mortgages payable (note 6)	\$1,020,348	\$742,611	\$712,986
Bank indebtedness (note 7)	144,166	2,253	115,491
Accounts payable	38,932	35,255	48,767
	<u>1,203,446</u>	<u>780,119</u>	<u>877,244</u>
Unitholders' equity (note 8)	765,112	754,737	608,645
	<u>\$1,968,558</u>	<u>\$1,534,856</u>	<u>\$1,485,889</u>

Unitholders' Equity

Unitholders' equity, beginning of period	\$754,737	\$510,847	\$510,847
Proceeds from issuance of units	8,596	253,544	101,778
Issue costs	(106)	(10,578)	(4,535)
Net earnings	42,912	68,694	32,360
Distributions to unitholders	(41,027)	(67,770)	(31,805)
Unitholders' equity, end of period	<u>\$765,112</u>	<u>\$754,737</u>	<u>\$608,645</u>

See accompanying notes to consolidated financial statements

H&R REAL ESTATE INVESTMENT TRUST

Unaudited Consolidated Statement of Earnings

(In thousands of dollars, except per unit amounts)

	Three Months ended		Six Months ended	
	June 30 2002	June 30 2001	June 30 2002	June 30 2001
Operating revenue:				
Rentals from income properties	\$73,178	\$49,270	\$137,568	\$87,252
Mortgage interest and other	1,757	3,581	5,735	8,696
	<u>74,935</u>	<u>52,851</u>	<u>143,303</u>	<u>95,948</u>
Operating expenses:				
Property operating costs	27,747	17,760	52,571	31,431
Mortgage and other interest	20,246	13,528	36,654	24,200
Depreciation of income properties	3,883	2,701	7,223	4,886
Amortization of deferred expenses	899	691	1,680	1,214
	<u>52,775</u>	<u>34,680</u>	<u>98,128</u>	<u>61,731</u>
Operating income from properties	\$22,160	\$18,171	\$45,175	\$34,217
Trust expenses	1,109	945	2,263	1,857
Net earnings	<u>\$21,051</u>	<u>\$17,226</u>	<u>\$42,912</u>	<u>\$32,360</u>
Basic net earnings per unit (note 9)	<u>\$0.3004</u>	<u>\$0.3000</u>	<u>\$0.6137</u>	<u>\$0.5915</u>
Diluted earnings per unit (note 9)	<u>\$0.2982</u>	<u>\$0.2978</u>	<u>\$0.6090</u>	<u>\$0.5870</u>

See accompanying notes to consolidated financial statements

H&R REAL ESTATE INVESTMENT TRUST

Unaudited Consolidated Statement of Cash Flows

(In thousands of dollars)

	Three Months ended		Six Months ended	
	June 30 2002	June 30 2001	June 30 2002	June 30 2001
Cash provided by (used in):				
Operations:				
Net earnings	\$21,051	\$17,226	\$42,912	\$32,360
Items not affecting cash:				
Depreciation	3,883	2,701	7,223	4,886
Amortization of deferred leasing costs	754	601	1,440	1,052
Gain on sale of income properties	(187)	(265)	(1,684)	(553)
Funds from operations	25,501	20,263	49,891	37,745
Net changes in:				
Amortization of deferred financing costs	145	90	240	162
Changes in other non-cash operating items (note 10)	(15,322)	7,484	(13,774)	10,371
	10,324	27,837	36,357	48,278
Financing:				
Bank indebtedness	(13,676)	107,393	141,913	17,306
Mortgages payable:				
Acquisitions	26,901	29,400	199,668	35,300
Repayments	(8,218)	(13,824)	(16,448)	(17,145)
Proceeds from issuance of units, net	8,017	220	8,490	97,243
Distributions to unitholders	(20,719)	(16,711)	(41,027)	(31,805)
	(7,695)	106,478	292,596	100,899
Investments:				
Income properties				
Proceeds on disposition of income properties	95	523	2,646	10,291
Acquisitions	(16,365)	(135,207)	(334,569)	(168,158)
Mortgages receivable	(1,364)	1,844	(13,083)	9,653
	(17,634)	(132,840)	(345,006)	(148,214)
Increase (Decrease) in cash, short-term investments and funds in escrow	(15,005)	1,475	(16,053)	963
Cash, short-term investments and funds in escrow, at beginning of period	23,283	1,981	24,331	2,493
Cash, short-term investments and funds in escrow, at end of period	\$8,278	\$3,456	\$8,278	\$3,456
Supplemental cash flow information:				
Interest received	529	9,557	6,093	14,376
Interest paid	20,067	14,428	36,427	24,144
Supplemental disclosure of non-cash investing activities:				
Acquisitions of income properties through assumption of mortgages payable	-	220,860	125,500	236,721
Acquisitions of income properties through repayment of mortgages receivable	-	83,979	42,760	83,979
Mortgages payable assumed by purchasers on disposition of income properties	-	-	30,983	6,232
Mortgages receivable granted to purchasers on disposition of income properties	415	-	14,981	-

See accompanying notes to consolidated financial statements

H&R REAL ESTATE INVESTMENT TRUST

Notes to Unaudited Consolidated Financial Statements, page 1

(In thousands of dollars, except per unit amounts)

June 30, 2002

H&R Real Estate Investment Trust (the "Trust") is an unincorporated trust with each unitholder participating pro rata in distributions of income and, in the event of termination of the Trust, participating pro rata in the net assets remaining after satisfaction of all liabilities.

1. Basis of Presentation:

Interim Financial Statements:

The interim financial statements follow the same accounting policies and methods of their application as the December 31, 2001 annual financial statements except for the stock-based compensation calculation as detailed in note 2.

In the opinion of the Trust, the accompanying unaudited consolidated financial statements contain all the adjustments necessary to present fairly the financial position as of June 30, 2002, December 31, 2001 and June 30, 2001, and the results of operations for the three and six months ended June 30, 2002 and 2001 and the changes in cash flow for the three and six months ended June 30, 2002 and 2001. While the Trust believes that disclosures presented are adequate to make the information not misleading, it is suggested that these financial statements be read in conjunction with the financial statements and notes included in the Trust's Annual Report for the year ended December 31, 2001.

The results of operations for the three and six months ended June 30, 2002 are not necessarily indicative of the results for the full year.

2. New accounting policy - stock-based compensation

Effective January 1, 2002, the Trust adopted the new Canadian Institute of Chartered Accountants accounting standard, Stock-Based Compensation and Other Stock-Based Payments, Section 3870. The only stock-based compensation or payment granted by the Trust is pursuant to its unit option plan. For a description of this plan, refer to note 9 in the consolidated financial statements contained in the 2001 Annual Report. The accounting for the unit option has not changed as a result of the new accounting standard.

In accordance with the new Section, the accounting standard will be applied to all awards granted subsequent to January 1, 2002, the effective date of the Section. During the quarter ended June 30, 2002, 775,000 stock options had been granted. Therefore, if the Trust had used the fair value method of accounting for its unit option plan, the proforma net earnings would have been \$42,837 for the six months ended June 30, 2002 and \$20,976 for the three months ended June 30, 2002 (proforma basic net earnings per unit of \$0.6126 for the six months ended June 30, 2002 and \$0.2994 for the three months ended June 30, 2002).

3. Income properties:

			June 30 2002	December 31 2001	June 30 2001
	Cost	Accumulated depreciation	Net book value	Net book value	Net book value
Land	\$370,435	\$0	\$370,435	\$274,521	\$273,419
Buildings	1,501,570	34,543	\$1,467,027	1,114,261	1,085,798
	\$1,872,005	\$34,543	\$1,837,462	\$1,388,782	\$1,359,217

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Notes to Consolidated Financial Statements, page 2

(In thousands of dollars, except per unit amounts)

June 30, 2002

4. Mortgages receivable:

The mortgages receivable are secured by real property, bear interest at a weighted average of 9.2% (December 31, 2001 - 10.9%, June 30, 2001 - 10.9%) per annum and are repayable between 2002 and 2006. The Trust has options to acquire interests in these properties.

5. Deferred expenses:

			June 30 2002	December 31 2001	June 30 2001
	Cost	Accumulated amortization	Net book value	Net book value	Net book value
Leasing	\$26,725	\$5,524	\$21,201	\$19,052	\$17,434
Financing	8,032	703	7,329	2,001	2,046
	\$34,757	\$6,227	\$28,530	\$21,053	\$19,480

6. Mortgages payable:

The mortgages payable are secured by the income properties, bear interest at the weighted average rate of 7.6% (December 31, 2001 - 7.7%, June 30, 2001 - 7.9%) per annum and mature between 2002 and 2023. Future principal payments are as follows:

Year ending December 31:

2002	\$14,291
2003	30,819
2004	57,473
2005	50,780
2006	55,001
Thereafter	811,984
	\$1,020,348

7. Bank indebtedness:

The bank indebtedness bears interest at rates approximating the prime rate of a Canadian chartered bank, is secured by fixed charges over certain income properties and is due on demand. At June 30, 2002, the prime interest rate was 4.25% (December 31, 2001 - 4.00%, June 30, 2001 - 6.25%) per annum.

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Notes to Consolidated Financial Statements, page 3

(In thousands of dollars, except per unit amounts)

June 30, 2002

8. Unitholders' equity:

(a) The following units are issued and outstanding:

	Units issued and outstanding
As at December 31, 2000	49,092,781
Issued on March 1, 2001 (at a price of \$12.20 per unit)	8,300,000
Issued under the distribution reinvestment plan and direct unit purchase plan	53,491
As at June 30, 2001	57,446,272
Issued on November 2, 2001 (at a price of \$12.45 per unit)	11,500,000
Issued under the distribution reinvestment plan and direct unit purchase plan	83,777
Options exercised	741,000
As at December 31, 2001	69,771,049
Issued under the distribution reinvestment plan and direct unit purchase plan	109,673
Options exercised	675,332
As at June 30, 2002	70,556,054

(b) Incentive unit option plan:

The Trust may grant options to its officers, employees and trustees for up to 5,800,000 units. The exercise price of each option equals the market price of the Trust's units on the date of grant. The options vest at 33.3% per year from the grant date, being fully vested after three years and expire 10 years after the date of the grant.

	Number of Options outstanding June 30, 2002	Number of Options exercisable June 30, 2002
\$10.00, expiring in 2006	20,000	20,000
\$10.84, expiring in 2007	267,900	267,900
\$11.32, expiring in 2008	542,198	542,198
\$11.11, expiring in 2009	240,000	240,000
\$11.00, expiring in 2009	391,251	247,497
\$ 9.17, expiring in 2010	80,334	36,999
\$11.22, expiring in 2010	294,614	75,982
\$12.01, expiring in 2011	137,371	45,789
\$12.31, expiring in 2011	431,832	143,943
\$12.58, expiring in 2011	725,000	-
\$13.12, expiring in 2012	775,000	-
	3,905,500	1,620,308

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Notes to Consolidated Financial Statements, page 4

(In thousands of dollars, except per unit amounts)

June 30, 2002

9. Per unit amounts:

Basic net earnings per unit and distributable income per unit have been computed using the weighted average number of units outstanding during the six months ended June 30, 2002 of 69,927,642 (June 30, 2001 - 54,709,466) and during the three months ended June 30, 2002 of 70,067,440 (June 30, 2001 - 57,427,578). For purposes of computing diluted earnings per unit the weighted average number of units outstanding during the six months ended June 30, 2002 was 70,467,853 (June 30, 2001 - 55,130,642) and during the three months ended June 30, 2002 was 70,599,883 (June 30, 2001 - 57,852,527).

10. Changes in other non-cash operating items:

	Three Months ended		Six Months ended	
	June 30 2002	June 30 2001	June 30 2002	June 30 2001
Deferred expenses	(\$4,220)	(\$8,331)	(\$9,157)	(\$9,402)
Accounts receivable	979	415	(1,440)	(27)
Accrued rent receivable	(395)	(396)	(792)	(792)
Prepaid expenses and sundry assets	(1,852)	(2,533)	(6,062)	(1,738)
Accounts payable	(9,834)	18,329	3,677	22,330
	(\$15,322)	\$7,484	(\$13,774)	\$10,371

11. Distributable Income:

Distributable income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration of Trust as follows:

	Three Months ended		Six Months ended	
	June 30 2002	June 30 2001	June 30 2002	June 30 2001
Net earnings	\$21,051	\$17,226	\$42,912	\$32,360
Depreciation	3,883	2,701	7,223	4,886
Accrued rent	(395)	(396)	(792)	(792)
Distributable Income	\$24,539	\$19,531	\$49,343	\$36,454
Distributable income per unit (note 9)	\$0.3502	\$0.3401	\$0.7056	\$0.6663
Cash distribution per unit	\$0.2960	\$0.2910	\$0.5870	\$0.5820

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Notes to Consolidated Financial Statements, page 5

(In thousands of dollars, except per unit amounts)

June 30, 2002

12. Significant transactions:

On January 18, 2002, the Trust completed the sale of a 294,000 square foot retail property for \$48.1 million. This was paid by the purchaser assuming the existing mortgages payable of approximately \$31 million and the Trust granting the purchaser a vendor take back mortgage of \$14.5 million which was subsequently repaid in July 2002.

On January 29, 2002, the Trust acquired 17 properties for approximately \$79 million throughout British Columbia and Alberta comprising 1.1 million square feet all leased to Finning International.

On February 28, 2002, the Trust exercised its option to acquire the 526,000 square foot Bell Mobility office complex in Mississauga, Ontario. The purchase price of approximately \$140 million and an escrow account acquired of \$15.8 million was satisfied by assuming the mortgage payable of \$115.5 million and by the repayment of the Trust's mortgage receivable of approximately \$36.6 million.

On March 1, 2002, the Trust acquired a 991,000 square foot office tower in Ottawa, Ontario for \$224 million.

In March 2002, the Trust acquired one office and three industrial properties for approximately \$38 million. A mortgage payable of \$10 million was assumed on the acquisition of the office property.

During the second quarter of 2002, the Trust acquired one 43,000 square foot industrial building and one 110,000 square foot retail property for approximately \$16 million.

13. Subsequent Event:

On July 22, 2002, the Trust acquired a 1 million square foot industrial property in Marion, Illinois for approximately \$47 million.

H&R REAL ESTATE INVESTMENT TRUST

Management's Discussion & Analysis

For the Six Months ended June 30, 2002

The following discussion should be read in conjunction with the consolidated financial statements of the REIT and the notes thereto for the six months ended June 30, 2002 and 2001, with the Management's Discussion and Analysis for December 31, 2001 including the section on "Risks and Uncertainties", and with the consolidated financial statements and notes thereto for year-end of December 31, 2001.

RESULTS OF OPERATIONS

Net earnings for the three months ended June 30, 2002 of \$21.1 million or \$0.3004 per unit, increased by 22.2% on a dollar basis and by 0.1% on a per unit basis over the net earnings of \$17.2 million or \$0.3000 per unit for June 30, 2001.

For the six month period ended June 30, 2002 compared to June 30, 2001, net earnings increased 32.6% from \$32.4 million to \$42.9 million on a dollar basis and 3.8% from \$0.5915 to \$0.6137 on a per unit basis.

Depreciation of \$3.9 million (Q2 2001 - \$2.7 million) and amortization of \$0.9 million (Q2 2001 - \$0.7 million) are included in the determination of net earnings for the three months ended June 30, 2002. For the six months ended June 30, 2002, net income determination included depreciation of \$7.2 million (2001 - \$4.9 million) and amortization of \$1.7 million (2001 - \$1.2 million). The REIT does not consider depreciation expense when calculating distributions paid to unitholders.

Income from rental operations before depreciation, amortization and trust expenses (in thousands of dollars)

	For the three months ended		For the six months ended	
	June 30 2002	June 30 2001	June 30 2002	June 30 2001
Rentals from income properties	\$73,178	\$49,270	\$137,568	\$87,252
Mortgage interest and other	<u>1,757</u>	<u>3,581</u>	<u>5,735</u>	<u>8,696</u>
	74,935	52,851	143,303	95,948
Property operating costs	<u>27,747</u>	<u>17,760</u>	<u>52,571</u>	<u>31,431</u>
Operating income before interest	47,188	35,091	90,732	64,517
Mortgage and other interest	<u>20,246</u>	<u>13,528</u>	<u>36,654</u>	<u>24,200</u>
Income from operations before depreciation, amortization and trust expenses	\$26,942	\$21,563	\$54,078	\$40,317

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Management's Discussion & Analysis, page 2.

For the Six Months ended June 30, 2002

RENTALS FROM INCOME PROPERTIES

Rentals from income properties for the three month period ended June 30 increased 48.5% from \$49.3 million in Q2 2001 to \$73.2 million in 2002. For the six month period ended June 30, rentals increased from \$87.3 million in 2001 to \$137.6 million in 2002 or 57.7%. The increase is primarily the result of the REIT's ongoing strategy of adding to its properties either through acquisitions or its mezzanine financing program. A total of 28 properties were added and two properties were sold between June 30, 2001 and June 30, 2002 representing a net increase in the book value of income properties (after depreciation) of \$478.2 million.

Property operating costs and mortgage and other interest have also increased from \$17.8 million and \$13.5 million to \$27.7 million and \$20.2 million respectively for the second quarter of 2002. These costs also increased from \$31.4 million and \$24.2 million to \$52.6 million and \$36.7 million respectively for the six months ended June 30, 2002. These increases reflect the increase in activity resulting from the additional properties added to the portfolio (see "changes in financial position – income properties" below).

The occupancy rate in the REIT's portfolio as at June 30, 2002 remains unchanged at 99% from March 31, 2002 and June 30, 2001.

MORTGAGE INTEREST AND OTHER INCOME

The REIT earned \$1.8 million in mortgage interest and other income in the second quarter of 2002 compared to \$3.6 million in 2001. This 50.9% decline primarily reflects the reduction in the mortgage receivable asset between June 30, 2002 and 2001 (see "changes in financial position – mortgages receivable" below). For the six month period ended June 30, 2002 compared to June 30, 2001 mortgage interest income declined to \$5.7 million from \$8.7 million, a 34.1% decline. Included in this \$5.7 million amount are gains on sale of income properties (see "sale of income properties" below) of \$1.7 million (2001 - \$0.6 million). The balance of this type of income (when excluding gains on sale) has therefore declined by 50.3% when comparing the six month periods ended June 30, 2002 to 2001, which is primarily due to the reduction in mortgage receivable assets year over year.

This decline will continue as more development projects are completed each quarter with the REIT either exercising its option, in which case the property is acquired, or releasing its option at which time the mezzanine funds are required to be repaid to the REIT. Should more development opportunities arise in the future this trend could then reverse itself. The weighted average interest for these investments on June 30, 2002 was 9.2% (2001 – 10.9%). The average rate of interest has declined mainly because

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Management's Discussion & Analysis, page 3.

For the Six Months ended June 30, 2002

the terms of a \$31 million mortgage receivable was renegotiated to 7.25% from 10% per annum this quarter, with the maturity date being extended for another 2 years to April 2005. This reduction in the weighted average interest rate was also a factor in the reduction of the second quarter interest income over the same period in 2001.

SALE OF INCOME PROPERTIES

The REIT's philosophy is to dispose of assets that no longer fit its investment strategy and re-deploy the proceeds in more attractive investment opportunities. During this quarter, the REIT disposed of certain excess industrial lands yielding a profit of approximately \$0.2 million. This transaction, together with the disposition of one non-core 294,000 square foot retail property in the first quarter have generated a profit of approximately \$1.7 million for the six months ended June 30, 2002 compared to \$0.3 million and \$0.6 million earned during the second quarter and six months ended June 30, 2001 respectively.

TRUST EXPENSES

Trust expenses increased in the second quarter 2002 over second quarter 2001 by \$0.2 million and by \$0.4 million for the equivalent six month period reflecting the increase in size and activity of the REIT. These expenses amount to 1.5% of rentals from income properties for the 2002 second quarter, down from 1.9% for the second quarter of 2001. The year-to-date percentage has declined from 2.1% in 2001 to 1.6% in 2002.

DISTRIBUTION TO UNITHOLDERS

Currently, the REIT is required to distribute not less than 80% of its distributable income to unitholders on a monthly basis. This was reduced from 85% by virtue of a change to the Declaration of Trust adopted at the annual general and special meeting of Unitholders in May 2001. Depreciation, accrued rent and other non-cash items are added to, or deducted from, net earnings to determine the amount of income available for distribution.

Total distributions in the current quarter, at 9.7c per unit per month for April and May 2002, increasing to 10.2c per unit in June, amounted to \$20.7 million or 84.4% of distributable income. This compares to \$16.7 million at 9.7c per unit per month representing an 85.6% payout in the same quarter of the prior year.

Total distributions for the six month period ended June 30, 2002 amounted to \$41.0 million or 83.1% of distributable income, compared to \$31.8 million for the same period in the 2001 year, representing an 87.2% payout ratio. The primary reason for the

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Management's Discussion & Analysis, page 4.

For the Six Months ended June 30, 2002

decline is the \$1.7 million gain on sales (see "sale of income properties" above) generated in the first six months of 2002, which has not been distributed to unitholders.

Distributable income increased by \$5.0 million from \$19.5 million for the quarter ended June 30, 2001 to \$24.5 million for the quarter ended June 30, 2002. This represents an increase on a per unit basis from \$0.3401 for the quarter ended June 30, 2001 to \$0.3502 per unit for the quarter ended June 30, 2002.

Distributable income increased to \$49.3 million or \$0.7056 per unit from \$36.5 million or \$0.6663 per unit for the six months ended June 30, 2002 compared to the same period in fiscal 2001.

The primary reason for the increase in distributable income on both a dollar and per unit basis was the acquisition of numerous properties that occurred subsequent to the first quarter of 2001. Significant assets purchased during the last 9 months of 2001 included the 936,000 square foot TransCanada PipeLines Tower ("TCPL") in Calgary and two Bell Canada data/office centres in Toronto and Montreal comprising approximately 911,000 square feet. These additions to the portfolio had an impact on distributable income for only half of the six months ended June 30, 2001 but they did contribute to earnings for the entire first six months of 2002.

The major acquisitions that occurred during the first quarter of 2002 included the Finning Portfolio ("Finning") in Western Canada and the Place Bell office tower in Ottawa. In addition, the REIT exercised its option to purchase the Bell Mobility complex ("Bell Mobility") in Mississauga (see "changes in financial position – income properties" below). These acquisitions part way through the first six months of 2002 also contributed to the increase in distributable income for both the three month and six month period ended June 30, 2002 over the similar period ended June 30, 2001.

In addition, distributable income was enhanced for the six months ended June 30, 2002 by \$0.02 per unit due to the \$1.7 million gain on the sale of non-core properties to date in 2002 (see "sale of income properties" above) compared to \$0.01 per unit for the same period in 2001.

Readers are cautioned that distributable income is a non-GAAP measure and should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the REIT's performance. The REIT's method of calculating distributable income may differ from other issuers' methods and accordingly distributable income may not be comparable to measures used by other issuers.

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Management's Discussion & Analysis, page 5.

For the Six Months ended June 30, 2002

	For the three months ended		For the six months ended	
	June 30 2002	June 30 2001	June 30 2002	June 30 2001
Calculation of Distributable Income (in thousands of dollars)				
Net earnings	\$21,051	\$17,226	\$42,912	\$32,360
Add (deduct)				
Depreciation	3,883	2,701	7,223	4,886
Accrued rent	(395)	(396)	(792)	(792)
Distributable Income	<u>\$24,539</u>	<u>\$19,531</u>	<u>\$49,343</u>	<u>\$36,454</u>

CHANGES IN FINANCIAL POSITION

ASSETS

Income Properties

During the first quarter ended March 31, 2002, the REIT acquired twenty-three properties and disposed of one property.

In January 2002 the REIT acquired the Finning Portfolio, which consisted of seventeen industrial properties located in Western Canada for approximately \$79 million and comprising 1,065,000 square feet. In addition, a non-core retail property located in Calgary, Alberta totaling 294,000 square feet was sold for gross proceeds of \$48.1 million realizing a profit of \$1.5 million.

At the end of February 2002, the REIT exercised its option to acquire the 526,000 square foot Bell Mobility complex in Mississauga, Ontario for which it had previously provided mezzanine financing. This office facility is leased for a 20-year term to Bell Mobility. The total cost was approximately \$140 million which was satisfied in part by the assumption by the REIT of the matching \$115.5 million non-recourse 20-year mortgage bond already in place.

During March 2002, the REIT completed an additional four acquisition transactions totaling \$262 million. The largest of these acquisitions was the 27-storey Place Bell office tower in downtown Ottawa, comprising 991,000 square feet. Bell Canada is the largest tenant in this multi-tenanted property, occupying 48% of the property for a 20-year lease term. Including Bell, the four largest tenants comprise approximately 90% of the net rental income for the project. The second acquisition was a single tenant sale

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and leaseback transaction of two industrial properties located in Calgary, Alberta. These locations total 228,000 square feet and are leased for 18 years to Nova Corporation. Thirdly, the REIT exercised its option to purchase a 105,000 square foot facility leased to Maritz Canada in Mississauga, Ontario on a long-term basis. Finally, the REIT purchased a 70,000 square foot industrial property located in Burlington, Ontario which is leased to a creditworthy tenant for a 12-year term.

During the second quarter, the REIT acquired 2 new properties and disposed of certain excess industrial lands. The first acquisition was a 43,000 square foot industrial property leased for 20 years in Calgary, Alberta. The REIT also acquired a 110,000 square foot retail property in Kelowna, British Columbia leased to Revy/Rona for a term of 19 more years. These two properties were acquired by the REIT for \$16.0 million.

Consequently as a result of these acquisitions, income properties increased by 32.3% to \$1,837.5 million at June 30, 2002 from \$1,388.8 million at December 31, 2001.

Mortgages Receivable

The REIT provides mezzanine financing for development projects that are consistent with the REIT's objectives and philosophy.

At both December 31, 2001 and June 30, 2002 there were five projects for which the REIT had provided mezzanine development financing. Although two acquisitions were made during the first quarter through the exercise of the REIT's purchase options, some portion of the mortgage receivable remained outstanding on each transaction due to the fact that not all the available land was utilized in each project and there remains further development potential.

Mortgages receivable decreased 18.2% from \$80.6 million at December 31, 2001 to \$65.9 million at June 30, 2002. This change is primarily due to three items that occurred in the first quarter of 2002. Firstly, the exercise of the REIT's option on the Bell Mobility complex converted \$36.6 million from mortgages receivable to income properties (of which approximately \$7 million was advanced shortly before closing – thereby having a net \$29.6 million effect on the balance). Secondly, the acquisition of the Derry Road project (Maritz) resulted in a \$2.6 million reduction in the same manner as the Bell Mobility complex. Finally, mortgages receivable increased by a short term VTB of \$14.5 million granted on the sale of the retail property sold in January 2002. This VTB was subsequently repaid in July 2002.

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Deferred Expenses

Deferred expenses increased by \$7.4 million from \$21.1 million at December 31, 2001 to \$28.5 million at June 30, 2002, an increase of 35.5%. The bulk of this increase is due to deferred financing expenses related to the 20-year mortgage bonds placed on the Bell Canada centres in Toronto and Montreal (see "liabilities" below) during the first quarter of 2002. Another \$2.2 million was incurred during the second quarter relating to two new leases at the 26 Wellington Street and Argentia Road properties for twelve and ten years respectively.

Other Assets

Accounts receivable and accrued rent receivable were not significantly different between December 31, 2001 and June 30, 2002.

Prepaid expenses and sundry assets increased from \$6.6 million at December 31, 2001 to \$12.7 million at June 30, 2002, an increase of 91.9%. The increase is primarily as a result of realty taxes being prepaid on the Place Bell tower as well as most other REIT assets, certain development costs being recoverable on the Bell Mobility complex as well as an overall increase in the REIT's activities.

Cash, short-term investments and funds in escrow decreased by \$16.1 million between December 31, 2001 and June 30, 2002. Almost all the cash on hand at December 31, 2001 was used to fund investments in income producing properties. This has been offset by the fact that due to certain loan requirements on the three non-recourse public mortgage bonds that the REIT has on Bell Mobility, TCPL and the Bell data centres, a portion of funds will continue to remain in escrow each month until the expiry of these mortgages.

LIABILITIES

The REIT's Declaration of Trust limits the indebtedness to a maximum of 65% of the gross book value of the REIT. At June 30, 2002 the REIT's indebtedness was 58.1% compared to 47.7% at December 31, 2001. This increase is due to the increase in mortgages payable and bank indebtedness as outlined below.

Mortgages payable increased by 37.4% from the December year-end figure of \$742.6 million to \$1,020.3 million. This \$277.7 million net increase is primarily as a result of three transactions; firstly, the \$100 million 20-year non-recourse public bonds secured against two Bell data/office centres in Montreal and Toronto; secondly, the effective assumption of the 20-year non-recourse public bond issued to finance the Bell Mobility complex in Mississauga, Ontario in the amount of \$115.5 million; and thirdly, a \$58.9

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million mortgage secured against the 17 properties in the Finning portfolio. The mortgage payable balance was however reduced by \$31 million with the sale of the Shawnessy shopping centre when the mortgage was assumed by the purchaser. The balance of the increase is represented by six additional mortgages being offset by one mortgage that was discharged as well as the regular monthly self-amortizing principal payments made in the normal course of business operations.

Bank indebtedness increased by \$141.9 million from \$2.3 million at December 31, 2001 to \$144.2 million at June 30, 2002. These funds borrowed under the REIT's line of credit were used, together with a portion of the proceeds from the Bell data centres bonds, to purchase the Place Bell tower in Ottawa in February 2002. The line of credit was increased by \$40 million on a temporary basis to accommodate this purchase. The indebtedness is expected to be repaid in full once permanent financing has been arranged for this project.

Accounts payable increased by \$3.6 million from \$35.3 million at December 31, 2001 to \$38.9 million at June 30, 2002. The majority of the increase is attributable to the overall increase in the REIT's activities.

UNITHOLDERS' EQUITY

Unitholders' equity increased by \$10.4 million between December 31, 2001 and June 30, 2002 as a result of an excess of net earnings over distributions to unitholders, proceeds from the REIT's distribution reinvestment program and approximately \$7.0 million being raised on the exercise of options by officers and trustees of the REIT during this quarter.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided from operating activities during the second quarter amounted to \$10.3 million, a decrease from \$27.8 million in the same quarter of 2001. For the six months ended June 30, 2002, cash flow provided from operating activities was \$36.3 million compared to \$48.3 million for the same period last year.

This cash provided from operating activities, together with proceeds from issue of units, conventional mortgage financing and short term bank financing, have been used mainly to fund net property acquisitions of \$334.6 million and distributions to unitholders of \$41.0 million for the six months ended June 30, 2002.

Management expects to be able to meet all of the REIT's ongoing obligations and to finance future growth through the issue of new equity as well as by using conventional real estate debt, short term financing from the bank and through a related party and the

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REIT's stable cash flow. A significant source of future liquidity is the expected proceeds from the permanent financing that is currently being arranged for the Place Bell tower in Ottawa, which should raise funds of approximately \$160 million. In fact, the REIT currently has acquisition capacity of approximately \$200 million.

ACCOUNTING CHANGES

Effective January 1, 2002 the REIT adopted the new CICA recommendations on stock-based compensation and other stock-based transactions. The standard sets out a fair value based method of accounting, which is required for certain, but not all, stock-based transactions. The section must be applied to all stock-based payments to non-employees, and to employee awards that are direct awards of stock, that call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments. The new standard permits the REIT to continue its existing policy that no compensation cost is recorded on the grant of unit options to employees. However, the standard does require that the REIT disclose for each period, the proforma net earnings and the proforma earnings per unit, as if the fair value based method had been used to account for the employee unit option awards.

The REIT does not believe the adoption of this standard will have a material impact on the REIT's financial conditions or results of operations.

In accordance with the new Section, the accounting standard was applied to all awards granted subsequent to January 1, 2002, the effective date of the Section. During the quarter ended June 30, 2002, 775,000 stock options had been granted. Therefore, if the REIT had used the fair value method of accounting for its unit option plan, the proforma net earnings would have been \$42,387 for the six months ended June 30, 2002 and \$20,976 for the three months ended June 30, 2002 (proforma basic net earnings per unit of \$0.6126 for the six months ended June 30, 2002 and \$0.2994 for the three months ended June 30, 2002).

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Supplemental financial information

For the six months ended June 30, 2002

The following are details of selected supplemental financial information for the six months ended June 30, 2002.

OVERVIEW OF PORTFOLIO

(Net ownership position)

	June 30, 2002			
	Office	Industrial	Retail	Total
Number of Properties	27	71	13	111
Total Leasable Area (square feet)	5,896,355	9,161,787	1,366,823	16,424,965
Occupancy *	98%	100%	99%	99%
Average Rent per sq.ft.	\$17.68	\$5.40	\$16.82	\$10.76
Average Age of Buildings (years)	11.56	13.61	4.16	12.09
Average Interest Rate on Outstanding Mortgages *	7.8%	7.2%	7.2%	7.6%

* Weighted Average

	December 31, 2001			
	Office	Industrial	Retail	Total
Number of Properties	24	50	13	87
Total Leasable Area (square feet)	4,228,406	7,760,135	1,545,006	13,533,547
Occupancy *	97%	100%	99%	99%
Average Rent per sq.ft.	\$16.74	\$4.96	\$17.05	\$10.02
Average Age of Buildings (years)	14.01	13.24	3.27	12.34
Average Interest Rate on Outstanding Mortgages *	8.2%	7.2%	7.2%	7.7%

* Weighted average

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Supplemental financial information, page 2

For the six months ended June 30, 2002

NET OPERATING INCOME

Diversification by Asset Class

	6 months ended June 30, 2002	Year ended December 31, 2001
Office	60%	54%
Industrial	27%	28%
Retail	13%	18%

Diversification by Region

	6 months ended June 30, 2002	Year ended December 31, 2001
Ontario	61%	60%
Alberta	25%	25%
Quebec	11%	13%
Other	3%	2%

ASSETS

Book Value by Asset Class (\$millions)

	As at June 30, 2002	As at December 31, 2001
Office	\$1,114	\$738
Industrial	\$493	\$387
Retail	\$230	\$264

Book Value by Region (\$millions)

	As at June 30, 2002	As at December 31, 2001
Ontario	\$1,090	\$708
Alberta	\$473	\$451
Quebec	\$189	\$190
Other	\$85	\$40

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Supplemental financial information, page 3

For the six months ended June 30, 2002

TENANTS

(Analysis of largest 10 tenants
as a percentage of gross revenue)

	Tenant	% of gross revenue	Lease term to maturity (years)
1.	Bell Canada	15.21%	19.50
2.	TransCanada PipeLines Limited	11.76%	18.75
3.	Bell Mobility	6.27%	19.75
4.	Purolator Courier Limited	3.81%	19.00
5.	Finning International	3.05%	19.75
6.	Royal Bank of Canada	2.05%	9.00
7.	Public Works of Canada	1.98%	4.75
8.	Rona Inc.	1.97%	17.75
9.	Nestle Canada Inc.	1.55%	17.25
10.	ASEA Brown Boveri Inc.	<u>1.24%</u>	11.00
	Total	<u>48.89%</u>	

LEASE EXPIRIES

Percent of total expiring, and average net rent on expiry

	Office		Industrial		Retail		Total	
	%	Rent \$	%	Rent \$	%	Rent \$	%	Rent \$
*2002	0.34	10.07	1.43	6.45	-	-	1.77	7.15
2003	1.35	13.93	0.11	12.25	0.30	17.93	1.76	14.51
2004	1.43	19.07	1.77	5.54	0.11	20.56	3.31	11.88
2005	1.91	17.82	0.61	5.79	0.27	15.73	2.79	14.99
2006	1.79	14.23	0.48	5.23	0.25	19.71	2.52	13.06
Total	<u>6.82</u>	<u>15.98</u>	<u>4.40</u>	<u>6.00</u>	<u>0.93</u>	<u>18.08</u>	<u>12.15</u>	<u>12.53</u>

* For the balance of the year

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For the six months ended June 30, 2002

DEBT RATIOS

Debt to Gross Book Value (Guideline maximum 65%)						
	1997	1998	1999	2000	2001	2002
Quarter 1	55%	44%	48%	48%	42%	58%
Quarter 2	57%	38%	49%	48%	55%	58%
Quarter 3	52%	47%	38%	50%	55%	
Quarter 4	42%	45%	48%	50%	48%	
Percentage of Fixed Rate Debt to Total Debt						
	99%	83%	79%	83%	99%	88%

DEBT MATURITY

Balances due on Maturity					
	June 30, 2002		December 31, 2001		June 30, 2002
	(\$000's) *	Average Interest Rate (%)	(\$000's) *	Average Interest Rate (%)	Future Principal Repayments (\$000's)
2002 **	1,303	6.59	22,578	6.36	\$14,291
2003	2,068	8.41	2,231	7.80	30,819
2004	27,231	5.84	16,056	6.66	57,473
2005	19,256	7.05	19,256	7.05	50,780
2006	<u>21,575</u>	6.98	<u>21,575</u>	6.98	<u>55,001</u>
Total	<u>71,433</u>		<u>\$81,696</u>		<u>\$208,364</u>

* Balances due on maturity exclusive of normal periodic self-amortizing principal repayments

** For the balance of the year

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For the six months ended June 30, 2002

Other Statistics	June 30, 2002	December 31, 2001
Mortgage term to maturity	13.9 years	12.3 years
Lease term to maturity	12.2 years	11.4 years
Tax deferred percentage of distributions	*55%	64%
Payout ratio (guideline minimum 80%)	84.4%	86.8%

* Estimate

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