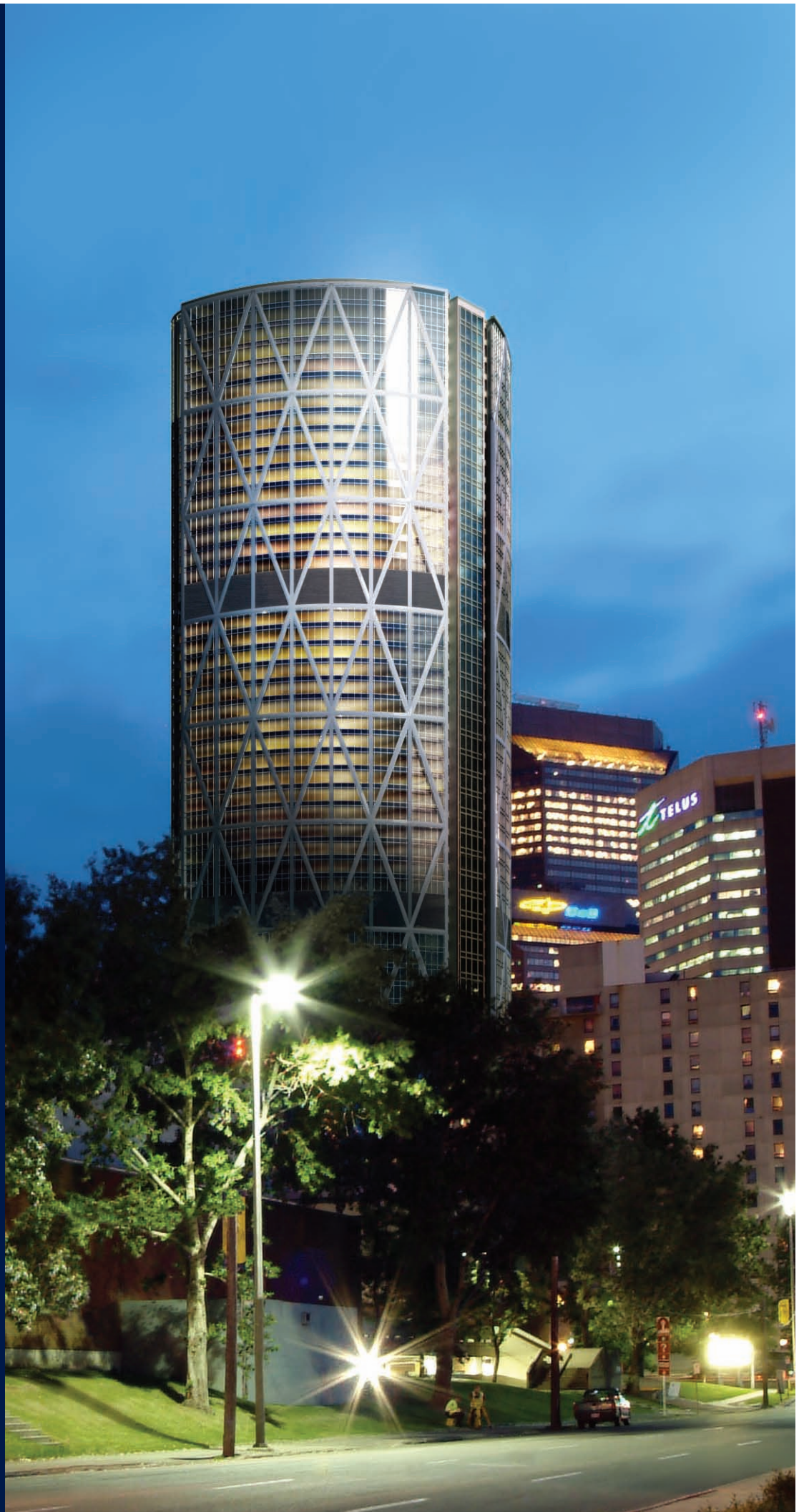


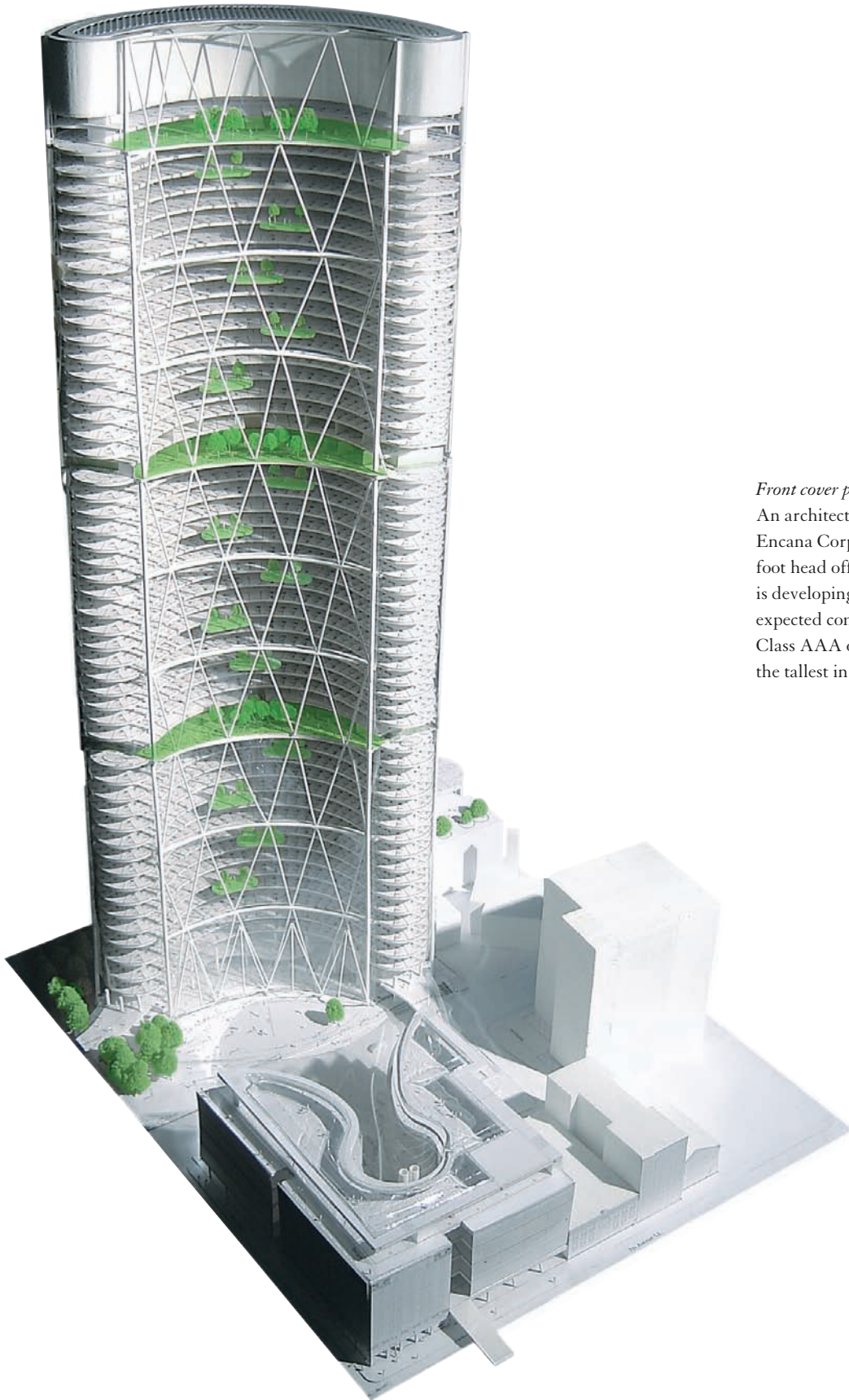
STABLE GROWTH
AND RETURNS
FROM A DISCIPLINED
STRATEGY

H&R REIT 2007 ANNUAL REPORT



2007 ANNUAL REPORT



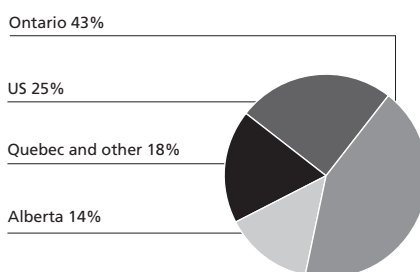


Front cover photo

An architectural rendering of *The Bow* – Encana Corporation's new 2 million square foot head office in downtown Calgary. H&R is developing the \$1.4-billion office tower for expected completion in 2012. The 59-storey, Class AAA office building is expected to be the tallest in western Canada.

Profile H&R Real Estate Investment Trust (“H&R REIT”) owns, manages and acquires income-producing properties, and develops projects that are substantially pre-leased. Most of H&R’s cash is distributed to unitholders each month and much of it has been tax deferred. H&R manages a diversified, North American portfolio of office, industrial and retail properties comprising 43 million square feet, with a net book value of \$4.5 billion at December 31, 2007. The foundation of H&R’s success since inception in 1996 has been a disciplined strategy that leads to consistent and profitable growth. Units of the trust trade on the Toronto Stock Exchange (symbol: HR.UN). Additional information regarding H&R REIT is available at www.hr-reit.com and on www.SEDAR.com.

2007 Book Value by Geographic Region



Primary Objectives H&R REIT pursues two primary objectives: to provide unitholders with reliable and growing cash distributions from its portfolio of income-producing properties, and to increase the value of units through active management of H&R’s assets, accretive acquisition of additional properties, and development projects. H&R is committed to maximizing cash distributions and capital appreciation for unitholders while maintaining prudent risk management and conservative use of financial leverage.

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Stable Growth and Returns from a Disciplined Strategy

H&R has a strong track record of executing a disciplined and proven strategy that has provided its unitholders with steady increases in distributions and unit price appreciation. The REIT mitigates risks and achieves its financial objectives through long-term property leasing and financing and conservative management of assets and liabilities.

2007 Highlights

- Signed largest single-tenant lease in Canadian history for *The Bow* office complex in Calgary
- Invested **\$336 million** in new projects under development
- Raised **\$224 million** in equity to maintain a sound capital structure
- Generated average **12%** levered return on **\$261 million** of acquisitions
- Increased distributable income **19%***
- Increased total distributions paid per unit to unitholders by **3%**
- Maintained portfolio occupancy rate at **nearly 100%** for the eleventh consecutive year
- Preserved long average terms to maturity of leases (**12.1** years) and financing (**10.2** years)

	2007	2006	2005
Rental income (million)	\$ 580	\$ 527	\$ 452
Net earnings (million)	\$ (2)	\$ 86	\$ 87
Net earnings per unit (basic)	\$ (0.02)	\$ 0.79	\$ 0.91
Distributable income (million)*	\$ 206	\$ 174	\$ 150
Distributable income per unit (basic)*	\$ 1.57	\$ 1.49	\$ 1.46
Distributions paid to unitholders (million)	\$ 180	\$ 155	\$ 135
Distributions paid per unit	\$ 1.37	\$ 1.33	\$ 1.30
Assets (billion)	\$ 5.1	\$ 4.8	\$ 3.8
Unitholders' equity (billion)	\$ 1.5	\$ 1.4	\$ 1.2

* Distributable income is a non-GAAP measure described in the MD&A

Long-term Performance

Since H&R REIT's first full year of operations in 1997, unitholders have enjoyed stable growth and returns, with a compound average annual growth rate of 30% in distributable income, 7% in distributions paid per unit, and 6% in year-end unit price. Over the same period, the average annual return on investment to unitholders was 16%, including distributions and unit price appreciation.

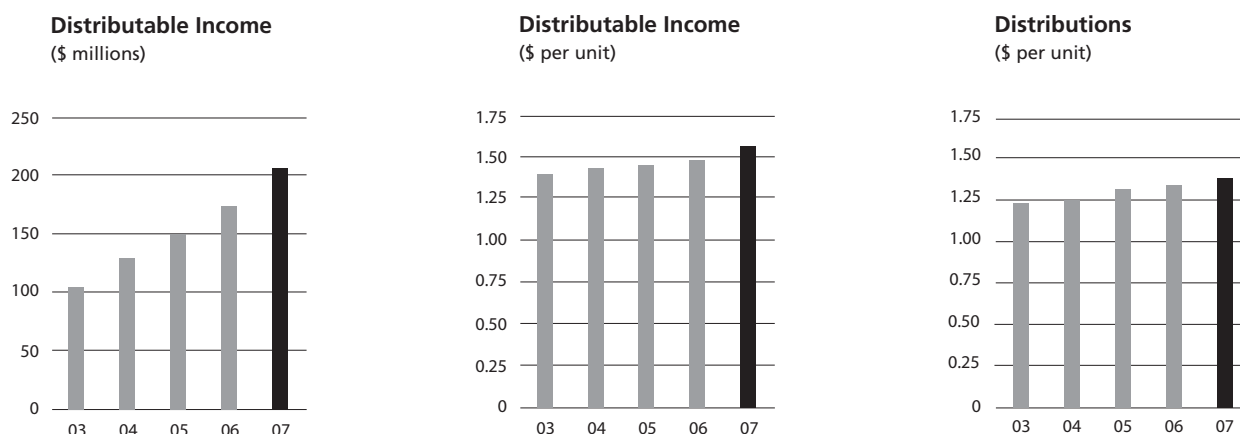
President's Message to Unitholders

FOR OVER A DECADE, H&R REIT HAS BUILT A SUSTAINABLE AND GROWING STREAM OF DISTRIBUTABLE INCOME BY AGGREGATING COMMERCIAL PROPERTIES INTO A DIVERSIFIED PORTFOLIO IN CANADA AND THE UNITED STATES, WHILE MITIGATING RISKS IN THE LONG TERM.

We believe that our persistent and uncompromising focus on executing this conservative, growth strategy is the reason our unitholders and lenders have consistently remained loyal to H&R over the years. Through our disciplined approach to investment, they have been regularly rewarded with **stability and growth**. This year, we anticipate meeting their expectations again.

Our 2007 Results

Although to a lesser extent than in previous years, we continued to expand and strengthen our geographically widespread portfolio last year. We invested \$261 million in 16 industrial, retail and office properties in Canada and the United States.



These accretive acquisitions were financed by long-term, fixed-rate debt of \$195 million and by equity sourced from proceeds of a public offering of units, cash flow from operations and proceeds from property dispositions. Last year, we raised equity from a public offering of 8.9 million units at a price of \$25.30 per unit, which generated gross proceeds of \$224 million.

Our key performance indicators – distributable income per unit and distributions paid per unit – increased last year by 5% to \$1.57 and 3% to \$1.37, respectively, from 2006. Also in 2007, we surpassed the milestones of: 300 properties, \$200 million in distributable income and \$5 billion in assets.

The price of H&R units declined from a historic high of nearly \$27 in the first quarter to \$19.84 at year end. This followed the general decline of REIT indices in many countries primarily caused by turmoil in the credit and equity markets. As a result, the return on investment to H&R unitholders, including distributions and unit depreciation was negative 12% in 2007, when the S&P Canadian REIT Total Return Index was down 6%. Since inception of H&R in 1996, however, its unit price has generally risen steadily, so that the compound average annual return to unitholders since inception has been 16%.

Our Conservative Strategy

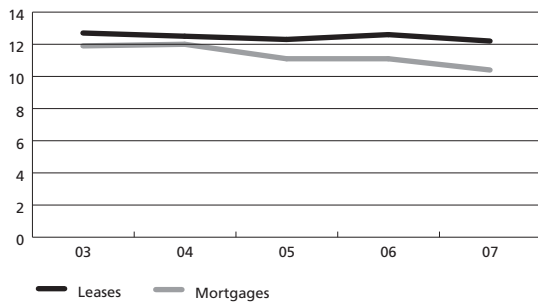
To make H&R REIT both an attractive and low risk investment, we execute a sensible, conservative strategy. It consists of establishing strong and reliable cash flow through long-term leasing and financing, and building a broadly diversified portfolio of quality commercial properties throughout North America. The key elements of our strategy over the years have been: predictable income, stable costs, accretive acquisitions and prudent developments.

Our Predictable Income

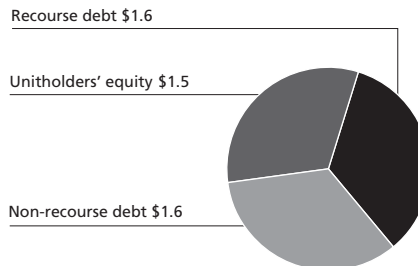
An attribute of H&R REIT that investors find very appealing is how we lock in highly stable and visible earnings. As we comb through investment opportunities, we select highly creditworthy tenants who are willing to sign long-term, triple-net leases. These long-term leases provide us with the assurance that the tenant is committed to the property. At year end 2007, the average term to maturity of our leases was just over 12 years, with only 11% of our total space expiring over the next 5 years. This long-term security of income insulates H&R unitholders from the volatility of economic and market cycles.

Moreover, many of our leases also include contractual rent escalations, as evidenced by the \$100 million of accrued future rent receivable on H&R’s balance sheet at year end – by far the largest amount of all Canadian REITs.

Average Term to Maturity
(Number of years)



Capital Structure
(\$ billions)



Our Stable Costs

Another key element of our strategy is to maintain relatively stable costs, a large part of which are mortgage and other interest expenses. We accomplish this by matching long-term leases with long-term property financing. In fact, over 90% of H&R’s debt was fixed-rate mortgages at year-end 2007, with maturities fairly evenly spread out into the future and only 32% coming due over the next 5 years.

Most of our leases are triple-net leases where the tenants are responsible for the property operating costs which in turn leads to a stabilized and predictable property operating income.

We have a strong balance sheet to leverage when appealing opportunities arise. The REIT’s debt at year end, of which 50% was non-recourse, represented 61% of gross book value and 55% of enterprise value – in line with industry standards.

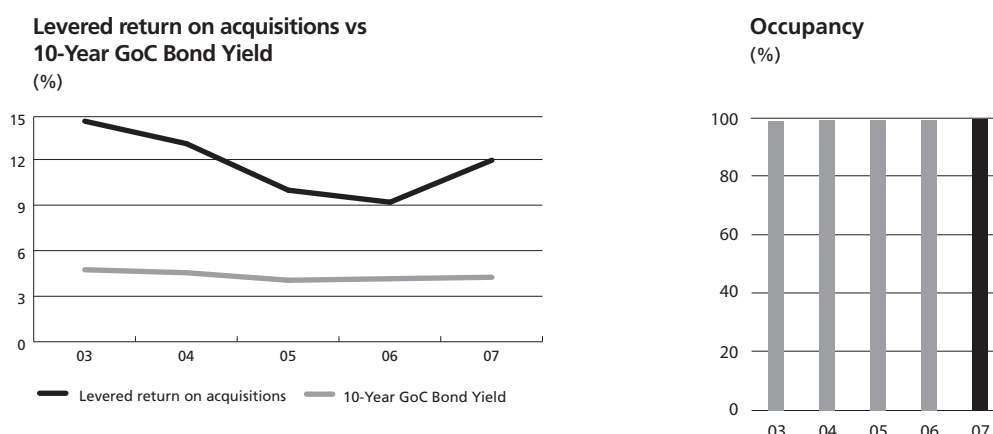
Our Accretive Acquisitions

Over the past five years, H&R has completed \$2.9 billion of accretive acquisitions, generating an overall average 12% levered return on equity.

In 2007, total annual acquisitions declined from the previous year to \$261 million due to a combination of higher property prices and restricted liquidity in credit markets. Our annual levered return last year was also 12%.

The largest transaction was the purchase of 12 refrigerated distribution facilities in six provinces totaling 1.7 million square feet for approximately \$215 million. These cold storage properties are leased for a weighted average term of over 19 years to Eimskip Atlas Canada Inc. – the largest North American refrigerated warehouse company.

Largely through accretive acquisitions, we now have a 43 million square foot portfolio of over 300 office, industrial and retail properties in 9 Canadian provinces and 26 States. This critical mass of commercial property generates a stable stream of distributable income and reduces potential re-leasing or re-financing risks in any given asset class or region. The quality and durability we have built into H&R's portfolio is reflected in its virtually full overall occupancy for the past 11 consecutive years.



Our Prudent Developments

With the globalization of commercial real estate prices, the cost of acquiring existing buildings has risen significantly in recent years. This has made the economics of developing properties from the ground up more appealing, causing us to expend more of our resources on development.

We are developing *The Bow* – a 2 million square foot, office and retail complex in Calgary. Its 59-storey class AAA office tower will be the future head office of Encana Corporation – a leading North American oil and gas company. The triple-net, 25-year lease will represent Canada's largest single-tenant lease.

By December 31, 2007, H&R had invested \$190 million in this \$1.4-billion project. Upon completion, expected in 2012, H&R will own a 3.6-million sq.ft. cluster of three prominent office towers in downtown Calgary – one of the fastest-growing metropolitan areas with currently the country's lowest vacancy rates and highest rental rates.

We have also commenced construction of the 348,000 square foot Phase III expansion of Bell Canada's state-of-the-art office complex in Mississauga, Ontario. The project has a total estimated cost of \$148 million. It is leased for 20 years, and is expected to be completed by July 2009.

At the end of 2007, we purchased a project currently under construction in the Greater Toronto Area. The 910,000 square foot distribution facility under development will be leased by an investment grade Canadian company for a term of 20 years on a triple net basis with contractual rental escalations. The building is estimated to cost \$140 million, and is expected to be completed by May 1, 2008 – the lease commencement date.



Architectural renderings of (a) The Bow office and retail complex in Calgary; (b) Phase III of the Bell Canada office complex in Mississauga

Our Outlook

Looking to the future, market conditions will challenge us, but they will also present attractive opportunities.

On the one hand, North America economies have not been this weak since the early nineties. Global financial markets have been rattled by the US residential sub-prime mortgage collapse. This has caused commercial property lenders' spreads to increase, and market capitalizations of REITS to decline. It will take some time before the disruption wanes.

Facing this stormy weather, we have battened down our hatches and are steering a safe course. We will take an even more prudent approach to further investment. Our pace of acquisitions will be restricted, and we may share risk with other strong financial partners. We will also endeavour to sell certain non-strategic assets to realize capital gains and provide cash to fund our ongoing developments.

On the other hand, commercial real estate industry conditions in Canada are much better now than they were in the early nineties. Commercial properties are more institutionally owned and professionally managed. Interest rates are lower. REIT balance sheets are more conservatively leveraged.

Market fundamentals are excellent in term of space absorption, high occupancy levels and rising rental rates. New supply, from more disciplined development, is in balance with demand, and there is capital available for financing quality acquisitions and new developments. We expect well-established, large-cap trusts will remain increasingly popular with income-oriented investors.

Our unitholders can rest assured that our experienced management team will maintain its strong track record by adhering to its proven, conservative strategy. We will continue to build up stable and predictable, distributable income. Confidence in H&R's performance this year prompted the Board of Trustees to approve an increase in cash distributions to unitholders of 7 cents per unit (or 5.1%) to \$1.44 per unit on an annual basis starting in January 2008.

We are grateful to our tenants, investors and employees for their ongoing trust and support, and we will look forward to continuing to deliver **stable growth and returns from a disciplined strategy.**



Thomas J. Hofstedter
President and CEO

March 2008

Management's Discussion and Analysis

For the year ended December 31, 2007

SECTION I

Forward-Looking Disclaimer

Management's discussion and analysis ("MD&A") of the consolidated financial position and the consolidated results of operations of H&R Real Estate Investment Trust ("H&R" or the "Trust") for the year ended December 31, 2007 should be read in conjunction with the Trust's consolidated financial statements and the notes thereto for the years ended December 31, 2007 and 2006. Historical results, including trends which might appear, should not be taken as indicative of future operations or results. Certain prior year items have been reclassified to conform with the presentation adopted in the current period.

Certain information in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements made or implied under the headings "Selected Annual Information", "Results of Operations", "Financial Condition" and "Outlook" relating to the Trust's objectives, strategies to achieve those objectives, the Trust's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by words such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect the Trust's current beliefs and are based on information currently available to management.

These statements are not guarantees of future performance and are based on the Trust's estimates and assumptions that are subject to risk and uncertainties, including those described below under "Risks and Uncertainties" and those discussed in the Trust's materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results and performance of the Trust to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include, among other things, risks related to: price of the Units; real property ownership; availability of cash flow; competition for real property investments; government regulation; interest rates and financing; environmental matters; redemption of the Units; unitholder liability; co-ownership interest in properties; construction risk; development risk including those risks relating to the Bow development; reliance on one corporation for management of a significant number of the Trust's properties; dependence on key personnel; potential conflicts of interest; changes in legislation; investment eligibility; currency risk; tax treatment of income trusts; dilution; ability to access capital markets; cash distributions; indebtedness of the Trust; and statutory remedies. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that the general economy remains stable; interest rates are relatively stable; acquisition capitalization rates are stable; competition for acquisitions of high quality office, industrial and retail properties remains strong; and equity and debt markets continue to provide access to capital. The Trust cautions that this list of factors is not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what the Trust believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements are made as of February 29, 2008 and H&R, except as required by applicable law, assumes no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances. All information for the three months ended December 31, 2007 and 2006 is unaudited.

Non-GAAP Financial Measures

Same-asset property operating income, distributable income ("DI"), and funds from operations ("FFO") are all supplemental financial measures used by management to track H&R's financial performance. Such measures are not recognized under Canadian generally accepted accounting principles ("GAAP") and therefore do not have standardized meanings prescribed by GAAP. These non-GAAP financial measures should not be construed as alternatives to comparable financial measures calculated in accordance with GAAP. Further, H&R's method of calculating such supplemental financial measures may differ from the methods of other real estate investment trusts or other issuers and accordingly, such supplemental financial measures used by management may not be comparable to similar measures presented by other real estate investment trusts or other issuers.

Overview

H&R is an unincorporated open-ended trust created by a Declaration of Trust and governed by the laws of the Province of Ontario. The Trust completed its conversion into an "open-ended" mutual fund trust under the provisions of the Income Tax Act (Canada) ("the Tax Act") effective July 21, 2005. As a result of the conversion, Unitholders are entitled to have their units redeemed at any time on demand payable in cash (subject to monthly limits) and/or *in specie*. The units of the Trust trade on the Toronto Stock Exchange under the symbol HR.UN.

H&R has two primary objectives:

- to provide Unitholders with stable and growing cash distributions, generated by the revenue it derives from investments in income producing real estate properties; and
- to maximize unit value through ongoing active management of the Trust's assets, acquisition of additional properties and the development and construction of projects which are pre-leased (to a significant degree) to creditworthy tenants.

H&R's strategy to accomplish these two objectives is to accumulate a diversified portfolio of high quality office, industrial and retail properties in Canada and the United States occupied by creditworthy tenants on a long-term basis.

	Three months ended December 31			Year ended December 31		
	2007	2006	Change %	2007	2006	Change %
Distributable income per unit ⁽¹⁾	\$ 0.401	\$ 0.378	6	\$ 1.572	\$ 1.494	5
Cash distributions paid per unit	\$ 0.343	\$ 0.334	3	\$ 1.370	\$ 1.334	3
Payout ratio	85.5%	88.4%	(3)	87.2%	89.3%	(2)
Funds from operations per unit ⁽¹⁾	\$ 0.431	\$ 0.427	1	\$ 1.731	\$ 1.689	2

(1) Distributable income and funds from operations are reconciled to cash provided by operations being the most comparable GAAP measure to these non-GAAP financial measures. See pages 21 and 29.

Occupancy levels and average rent per square foot	Year ended December 31		Office	Industrial	Retail	Total*
	2007	2006				
Occupancy	2007	2006	99.0%	100.0%	99.6%	99.7%
			98.6%	99.9%	99.7%	99.6%
Occupancy – same asset ⁽¹⁾	2007	2006	99.9%	100.0%	99.9%	99.9%
			99.8%	99.9%	99.9%	99.7%
Average rent per square foot	2007	2006	\$ 19.43	\$ 5.41	\$ 11.56	\$ 9.28
			\$ 19.36	\$ 5.21	\$ 12.56	\$ 9.53

* weighted average total

(1) Same asset refers to those properties owned by the Trust for the entire two-year period ended December 31, 2007 and excludes assets classified as discontinued operations.

The geographic diversification of H&R's portfolio as at December 31, 2007 is outlined in the charts below:

Number of properties	Ontario properties	United States properties	Alberta properties	Quebec properties	Other properties	Total properties
Office	23	3	4	1	4	35
Industrial	59	17	19	11	19	125
Retail	41	83	5	7	5	141
Total	123	103	28	19	28	301

(in thousands of square feet)	Ontario sq. ft.	United States sq. ft.	Alberta sq. ft.	Quebec sq. ft.	Other sq. ft.	Total sq. ft.
Office	5,002	304	1,406	452	884	8,048
Industrial	10,597	7,392	2,810	2,850	1,176	24,825
Retail	2,368	5,614	515	898	772	10,167
Total	17,967	13,310	4,731	4,200	2,832	43,040

Lease expiries	Office		Industrial		Retail		Total	
	% of sq. ft.	Rent per sq. ft. (\$) on expiry	% of sq. ft.	Rent per sq. ft. (\$) on expiry	% of sq. ft.	Rent per sq. ft. (\$) on expiry	% of sq. ft.	Rent per sq. ft. (\$) on expiry
2008	0.4	12.03	1.0	5.27	0.1	23.31	1.5	8.28
2009	0.7	18.63	2.7	5.25	0.4	7.61	3.8	7.96
2010	0.6	19.42	1.4	6.60	0.3	24.96	2.3	12.34
2011	0.7	17.34	0.3	13.69	0.2	12.84	1.2	15.68
2012	0.7	17.86	1.4	5.27	0.1	29.26	2.2	10.37
Total	3.1	17.47	6.8	5.91	1.1	16.69	11.0	10.24

Mortgages Payable

Years	Periodic amortized principal (\$000's)	Principal on maturity (\$000's)	Total principal (\$000's)	% of total principal	Weighted average interest rate on maturity
2008	\$ 86,833	\$ 69,693	\$ 156,526	5.2%	9.2%
2009	\$ 90,828	\$ 65,513	\$ 156,341	5.2%	6.6%
2010	\$ 96,967	\$ 20,590	\$ 117,557	3.9%	6.8%
2011	\$ 100,791	\$ 67,766	\$ 168,557	5.6%	6.5%
2012	\$ 82,511	\$ 281,136	\$ 363,647	12.0%	6.7%
Thereafter			\$ 2,063,839	68.1%	
			\$ 3,026,467	100.0%	
Mortgage premiums ⁽¹⁾			9,687		
Mortgage origination costs ⁽²⁾			(13,763)		
Total			\$ 3,022,391		

(1) Mortgage premiums represent the difference between the actual mortgages assumed on property acquisitions and the fair value of the mortgages at the date of purchase, less accumulated amortization.

(2) Mortgage origination costs are deducted from the Trust's mortgages payable balances and are recognized in interest over the life of the applicable mortgage. See "Changes to Significant Accounting Policies for 2007" in Section V.

	December 31, 2007	December 31, 2006
Average term to maturity of leases (years)	12.1	12.6
Average term to maturity of mortgages (years)	10.2	11.1
Weighted average interest rate of mortgages	6.3%	6.4%

SECTION II

Selected Annual Information

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

<i>(in thousands of dollars except per unit amounts)</i>	Year ended December 31, 2007	Year ended December 31, 2006 ⁽¹⁾	Year ended December 31, 2005 ⁽¹⁾
Rentals from income properties	\$ 579,548	\$ 527,461	\$ 451,950
Mortgage interest and other income	2,589	1,832	1,915
Net property operating income	102,592	88,473	85,626
Net earnings (loss) from continuing operations	(20,518)	71,949	73,274
Net earnings (loss) per unit from continuing operations			
(basic)	\$ (0.17)	\$ 0.66	\$ 0.77
(diluted) ⁽²⁾	\$ (0.17)	\$ 0.65	\$ 0.76
Net earnings (loss)	(2,193)	86,437	86,653
Net earnings (loss) per unit			
(basic)	\$ (0.02)	\$ 0.79	\$ 0.91
(diluted) ⁽²⁾	\$ (0.02)	\$ 0.78	\$ 0.90
Total assets	5,050,773	4,779,040	3,844,335
Mortgages payable	3,022,391	3,036,365	2,396,894
Distributable income per unit	\$ 1.57	\$ 1.49	\$ 1.46
Cash distributions per unit	\$ 1.37	\$ 1.33	\$ 1.30

Notes:

- (1) Certain items have been reclassified to conform with the presentation adopted in the current year.
(2) The calculation to determine “net earnings (loss) per unit from continuing operations (diluted)” and “net earnings (loss) per unit (diluted)” gives effect to the issue of units pursuant to outstanding options where dilutive and non-controlling interest conversion to units.

Over the last two years, total assets of the Trust have increased substantially principally due to property acquisitions. As a result, rentals from income properties and net property operating income have increased reflecting the greater number of income properties owned by the Trust. In addition, mortgages payable have also increased due to debt placed or assumed on property acquisitions and in order to take advantage of the low cost of debt.

As a result of the capital and credit markets tightening due to the sub prime fallout, the Trust does not expect the same level of acquisition activity and is expecting a net reduction in properties during 2008 as the Trust expects to sell some non-strategic assets. The increase in the value invested in the Trust’s development projects over the next year will continue to drive the growth in the Trust’s total assets.

SECTION III

Results of Operations

<i>(in thousands of dollars except per unit amounts)</i>	Three months ended December 31			Year ended December 31		
	2007 <i>(unaudited)</i>	2006 <i>(unaudited)</i>	Change %	2007	2006	Change %
Operating revenue:						
Rentals from income properties	\$ 149,494	\$ 142,909	5	\$ 579,548	\$ 527,461	10
Mortgage interest and other income	554	497	11	2,589	1,832	41
	150,048	143,406	5	582,137	529,293	10
Operating expenses:						
Property operating costs	51,851	47,806	8	184,174	165,058	12
Mortgage and other interest expense	43,149	43,877	(2)	175,500	168,012	4
Depreciation of income properties	22,496	21,537	4	88,175	79,475	11
Amortization of deferred expenses and intangible costs	8,182	7,878	4	31,696	28,275	12
	125,678	121,098	4	479,545	440,820	9
Net property operating income	24,370	22,308	9	102,592	88,473	16
Trust expenses	1,178	(1,970)	(160)	(5,929)	(9,101)	(35)
Net earnings before income taxes, non-controlling interest and discontinued operations	25,548	20,338	26	96,663	79,372	22
Income taxes	19,852	(897)	(2,313)	(118,333)	(2,836)	4,073
Net earnings (loss) before non-controlling interest and discontinued operations	45,400	19,441	134	(21,670)	76,536	(128)
Non-controlling interest	(2,450)	(1,111)	121	1,152	(4,587)	(125)
Net earnings (loss) from continuing operations	42,950	18,330	134	(20,518)	71,949	(129)
Net earnings from discontinued operations	5,741	2,234	157	18,325	14,488	26
Net earnings (loss)	\$ 48,691	\$ 20,564	137	\$ (2,193)	\$ 86,437	(103)
Basic net earnings (loss) per unit						
Continuing operations	\$ 0.34	\$ 0.16	113	\$ (0.17)	\$ 0.66	(126)
Discontinued operations	0.04	0.02	100	0.15	0.13	15
	\$ 0.38	\$ 0.18	111	\$ (0.02)	\$ 0.79	(103)
Diluted net earnings (loss) per unit						
Continuing operations	\$ 0.34	\$ 0.16	113	\$ (0.17)	\$ 0.65	(126)
Discontinued operations	0.04	0.02	100	0.15	0.13	15
	\$ 0.38	\$ 0.18	111	\$ (0.02)	\$ 0.78	(103)

The major change for the year ended December 31, 2007 is due to the income tax liability that was recorded for future income taxes. Please see "Income Taxes" below for a further discussion. The significant variation in trust expenses is also explained under "Trust Expenses" below. The other changes are due mainly to the impact of asset acquisitions.

The changes to significant accounting policies that apply for the fiscal year beginning January 1, 2007 are outlined in Section V.

Rentals from Income Properties

Rentals from income properties (“rentals”) include all amounts earned from tenants related to lease agreements, including basic rent, parking income, operating cost recoveries and realty tax recoveries. Rentals from properties sold or where an asset meets the definition of being held for sale during the year ended December 31, 2007 and 2006 have been recorded under net earnings from discontinued operations.

Rentals from Income Properties

<i>(in thousands of dollars)</i>	Three months ended December 31			Year ended December 31		
	2007	2006	Change	2007	2006	Change
Same-asset – current rentals	\$ 118,699	\$ 119,872	\$ (1,173)	\$ 467,787	\$ 461,535	\$ 6,252
Same-asset – straight-lining of contractual rent	3,030	4,690	(1,660)	14,920	20,764	(5,844)
Acquisitions – current rentals and straight-lining of contractual rent	27,765	18,347	9,418	96,841	45,162	51,679
Total rentals	\$ 149,494	\$ 142,909	\$ 6,585	\$ 579,548	\$ 527,461	\$ 52,087

The decrease in the same-asset current rentals of \$1.2 million for Q4 2007 over Q4 2006 and the increase of \$6.3 million for the year ended December 31, 2007 as compared to the year ended December 31, 2006 is primarily due to the following factors:

1. An increase of \$1.7 million for the three months ended December 31, 2007 and \$5.8 million for the year ended December 31, 2007 over the corresponding 2006 period is due to net contractual rent increases. This can be seen from the decline in the same-asset straight-lining of contractual rent over the respective prior periods as there is a direct inverse relationship between same-asset current rentals and same-asset straight-lining of contractual rent. A large portion of these increases was due to rental escalations on three significant leases. Firstly, effective May 1, 2006, rentals on the TransCanada PipeLines office tower lease in Calgary, AB increased by 12% per annum; secondly, also effective May 1, 2006, rentals on approximately 80% of the Telus office tower space in Calgary, AB increased by 13% per annum; and finally, on March 1, 2007, rentals at Bell Mobility Phase 1 located in Mississauga, ON increased by 11% per annum.
2. The property operating cost recoveries and realty tax recoveries comprise a significant portion of total rental income. Accordingly, that portion of rentals will fluctuate from period to period as property operating costs fluctuate from period to period in the normal course of business. As can be seen from the following table, same-asset property operating costs increased by \$1.3 million in the fourth quarter of 2007 as compared to the fourth quarter of 2006 and by \$5.4 million for the year ended December 31, 2007 as compared to the same period in 2006. These increases in property operating costs would in turn lead to an equivalent increase in rentals as most leases are triple net leases and the portfolio is almost fully occupied.
3. The same-asset current rentals in the United States have decreased by \$3.4 million in the fourth quarter of 2007 and \$4.2 million for the year ended December 31, 2007 as compared to the prior periods due primarily to the decrease in the U.S. dollar as compared to the Canadian dollar.

Property Operating Costs

Property operating costs include costs relating to such items as cleaning, interior and exterior building repairs and maintenance, elevator, HVAC, insurance (collectively “building operating costs”); realty taxes; utilities and property management fees (see “Related Party Transactions”) among other items. For Q4 2007, building operating costs, realty taxes, utilities and property management fees represented 19.7%, 50.2%, 10.9%, and 10.8% respectively of total property operating costs (Q4 2006 – 23.2%, 51.1%, 11.3% and 5.5%). For the year ended December 31, 2007, these costs represented 17.2%, 54.8%, 12.1% and 7.1% respectively of total property operating costs (December 31, 2006 – 18.0%, 55.7%, 12.1% and 4.8%). The reason for the increase in management fees is due to a reallocation of \$2.9 million from trust expenses to property operating costs for both the quarter and the year ended December 31, 2007 (see “Trust Expenses”).

Property Operating Costs

<i>(in thousands of dollars)</i>	Three months ended December 31			Year ended December 31		
	2007	2006	Change	2007	2006	Change
Same-asset property operating costs	\$ 44,626	\$ 43,310	\$ 1,316	\$ 159,787	\$ 154,389	\$ 5,398
Acquisitions	7,225	4,496	2,729	24,387	10,669	13,718
Total property operating costs	\$ 51,851	\$ 47,806	\$ 4,045	\$ 184,174	\$ 165,058	\$ 19,116

As highlighted above, the overall increase in rentals and property operating costs is mainly the result of the Trust's ongoing strategy of adding to its properties either through acquisitions or its mezzanine financing program. A total of 84 properties were added and 10 were disposed of between January 1, 2006 and December 31, 2007.

Same-Asset Property Operating Income

<i>(in thousands of dollars)</i>	Three months ended December 31			Year ended December 31		
	2007	2006	Change	2007	2006	Change
Same-asset rentals	\$ 121,729	\$ 124,562	\$ (2,833)	\$ 482,707	\$ 482,299	\$ 408
Same-asset – property operating costs	44,626	43,310	1,316	159,787	154,389	5,398
Total same-asset – property operating income	\$ 77,103	\$ 81,252	\$ (4,149)	\$ 322,920	\$ 327,910	\$ (4,990)
Total same-asset – property operating income excluding straight-lining of contractual rent	\$ 74,073	\$ 76,562	\$ (2,489)	\$ 308,000	\$ 307,146	\$ 854

The primary reason for the decrease in total same-asset property operating income is due to the strengthening of the Canadian dollar over the last year which is highlighted when the same-asset property income is split between Canada and the U.S. as shown below.

Same-Asset Property Operating Income

<i>(in thousands of dollars)</i>	Three months ended December 31			Year ended December 31		
	2007	2006	Change	2007	2006	Change
Same-asset total rentals	\$ 103,351	\$ 102,769	\$ 582	\$ 399,818	\$ 395,207	\$ 4,611
Same-asset – property operating costs	42,060	39,618	2,442	147,568	141,179	6,389
Same-asset – property operating income	\$ 61,291	\$ 63,151	\$ (1,860)	\$ 252,250	\$ 254,028	\$ (1,778)

Same-Asset Property Operating Income

<i>(in thousands of dollars)</i>	Three months ended December 31			Year ended December 31		
	2007	2006	Change	2007	2006	Change
Same-asset total rentals	\$ 18,378	\$ 21,793	\$ (3,415)	\$ 82,889	\$ 87,092	\$ (4,203)
Same-asset – property operating costs	2,566	3,692	(1,126)	12,219	13,210	(991)
Same-asset – property operating income	\$ 15,812	\$ 18,101	\$ (2,289)	\$ 70,670	\$ 73,882	\$ (3,212)

The reason for the decrease in the Canadian same-asset property operating income is primarily due to a reallocation of \$2.9 million from trust expenses to property operating costs for both the quarter and for the year ended December 31, 2007 (see "Trust Expenses"). Without this re-allocation, the quarter and year ended December 31, 2007 would have shown a slight increase as compared to the quarter and year ended December 31, 2006. The decrease in the U.S. same-asset property operating income is due primarily to the strengthening of the Canadian dollar during the three months and for the year ended December 31, 2007 as compared to the same periods in 2006. Had the U.S. same-asset property operating income been calculated in U.S. dollars, the increase would have been 3.8% for the three months and 1.0% for the year ended December 31, 2007 over the comparative periods.

Mortgage Interest and Other Income

<i>(in thousands of dollars)</i>	Three months ended December 31			Year ended December 31		
	2007	2006	Change	2007	2006	Change
Mortgage interest and other income before accounting for variable interest entities	\$ 739	\$ 602	\$ 137	\$ 3,216	\$ 2,231	\$ 985
Accounting for elimination of variable interest entities	(185)	(105)	(80)	(627)	(399)	(228)
Mortgage interest and other income	\$ 554	\$ 497	\$ 57	\$ 2,589	\$ 1,832	\$ 757

Mortgage interest and other income is earned mainly on funds provided in the Trust's mezzanine financing program, which allows H&R to access properties earlier on in the development cycle with the objective of obtaining more favourable returns.

Interest income increased slightly when comparing Q4 2007 to Q4 2006 and more significantly year over year due to the interest earned on the funds received from the equity raise in May 2007 of which most of these funds were only deployed at the end of the third quarter.

Mortgage and Other Interest Expense

<i>(in thousands of dollars)</i>	Three months ended December 31			Year ended December 31		
	2007	2006	Change %	2007	2006	Change %
Mortgage and other interest expense before accounting for variable interest entities and capitalized interest	\$ 46,314	\$ 44,714	4	\$ 183,704	\$ 169,175	9
Capitalized interest	(3,055)	(784)	290	(7,879)	(947)	732
Accounting for variable interest entities	(110)	(53)	108	(325)	(216)	50
Mortgage and other interest expense	\$ 43,149	\$ 43,877	(2)	\$ 175,500	\$ 168,012	4

The increase in mortgage and other interest expense for the year ended December 31, 2007 is due to the increased level of debt obtained to help finance acquisitions during 2007 and 2006. This is not evident when looking at the balance sheet due to the strengthening of the Canadian dollar. While it appears that mortgages payable has remained constant, the U.S. portion of the 2007 mortgages payable balance has decreased by approximately \$152 million from December 31, 2006 due to the change in foreign exchange. The amount of capitalized interest will continue to increase as the Trust continues to fund its development projects. The majority of the increase is due to The Bow development.

As at December 31, 2007 and 2006, H&R's weighted average cost of mortgage debt was 6.3% and 6.4%, respectively.

Depreciation of Income Properties

<i>(in thousands of dollars)</i>	Three months ended December 31			Year ended December 31		
	2007	2006	Change %	2007	2006	Change %
Depreciation of income properties	\$ 22,496	\$ 21,537	4	\$ 88,175	\$ 79,475	11

Depreciation of income properties is charged to income on a straight-line basis over the estimated useful life of the property. All of the increase is due to the continued acquisition of properties during 2007 and 2006.

Amortization of Deferred Expenses and Intangible Costs

<i>(in thousands of dollars)</i>	Three months ended December 31			Year ended December 31		
	2007	2006	Change	2007	2006	Change
Amortization of deferred leasing expenses	\$ 1,102	\$ 1,003	\$ 99	\$ 3,990	\$ 3,841	\$ 149
Amortization of deferred financing expenses	–	477	(477)	–	1,810	(1,810)
Amortization of deferred costs	872	533	339	2,893	2,234	659
Amortization of intangible assets on acquisitions	6,208	5,865	343	24,813	20,390	4,423
Total amortization	\$ 8,182	\$ 7,878	\$ 304	\$ 31,696	\$ 28,275	\$ 3,421

Amortization of deferred leasing expenses increased slightly when comparing Q4 2007 to Q4 2006 and for the year ended December 31, 2007 as compared to December 31, 2006 due to new and renewal leases which came into effect primarily throughout the office portfolio.

Amortization of deferred costs increased when comparing Q4 2007 to Q4 2006 and for the year ended December 31, 2007 as compared to December 31, 2006. The changes are due to the Trust's ongoing capital maintenance projects.

Amortization of intangible assets on acquisition of properties increased 6% from Q4 2006 to Q4 2007 and by 22% for the year ended December 31, 2007 as compared to December 31, 2006. For acquisitions of properties after September 12, 2003, the acquisition cost is allocated to land, buildings and intangible costs. These intangible costs include the value of above- and below-market leases, in-place operating leases and customer relationship value. In-place leasing costs are those costs that would be incurred to lease up the property had it been vacant upon acquisition, and include commissions, tenant allowances and inducements. The continued acquisition of properties will continue to result in an increase of this expense in each quarter.

The increase in total amortization is \$0.3 million from Q4 2006 to Q4 2007 and is \$3.4 million for the year ended December 31, 2007 as compared to the year ended December 31, 2006. This increase would have been greater if not for the change in accounting policy whereby deferred financing expenses were, effective January 1, 2007, included in the mortgages payable and recognized in interest expense over the life of the applicable mortgage as opposed to being separately disclosed and amortized over the life of the applicable mortgage. This change resulted in no amortization of deferred financing expenses in Q4 2007 or for the year ended December 31, 2007 as compared to \$0.5 million in Q4 2006 and \$1.8 million for the year ended December 31, 2006.

Trust Expenses

<i>(in thousands of dollars)</i>	Three months ended December 31			Year ended December 31		
	2007	2006	Change %	2007	2006	Change %
Trust expenses	\$ (1,178)	\$ 1,970	(160)	\$ 5,929	\$ 9,101	(35)

Trust expenses are primarily comprised of salaries, professional fees and trustee fees. Trust expenses decreased primarily due to a reallocation of certain fees payable to H&R Property Management Ltd. from trust expenses to management fee expense which is included in property operating costs pursuant to an amendment to the property management agreement entered into by the Trust and H&R Property Management Ltd. in 2007 and effective January 1, 2007. The amount of the reallocation for both the quarter and for the year ended December 31, 2007 is \$2.9 million. A further reallocation for both the quarter and for the year ended December 31, 2007 of \$0.8 million from trust expenses to gain on sale was completed as part of the same amendment.

For the three months ended December 31, 2007, salaries, professional fees and trustee fees represented approximately 65.6%, 18.8% and 2.3%, respectively, of overall trust expenses (Q4 2006 – 59.6%, 31.5% and 4.3% respectively). For the year ended December 31, 2007, salaries, professional fees and trustee fees represented approximately 62.9%, 20.5% and 3.3%, respectively, of overall trust expenses (December 31, 2006 – 56.6%, 28.0% and 3.5% respectively). Note that all of the 2007 amounts exclude the reallocations mentioned above for comparative purposes.

For Q4 2007 total trust expenses amounted to (0.8%) of rentals from income properties (Q4 2006 – 1.4%). For the year ended December 31, 2007, total trust expenses amounted to 1.0% of rentals from income properties (December 31, 2006 – 1.7%).

Income Taxes

<i>(in thousands of dollars)</i>	Three months ended December 31			Year ended December 31		
	2007	2006	Change	2007	2006	Change
Current income taxes at						
U.S. federal and applicable state statutory rates	\$ 162	\$ (7)	\$ 169	\$ 414	\$ 248	\$ 166
U.S. federal withholding taxes	501	654	(153)	2,284	2,038	246
Future income taxes at Canadian corporate and applicable provincial statutory rates	60	250	(190)	110	550	(440)
Future income taxes resulting from a change in tax status						
– increase with the enactment of the SIFT rules	–	–	–	133,950	–	136,100
– decrease resulting from a tax rate change	(15,500)	–	(16,000)	(15,500)	–	(16,000)
– decrease largely due to discontinued operations	(4,200)	–	(3,700)	(2,050)	–	(3,700)
Future income taxes allocated to other comprehensive income (loss)	(875)	–	(875)	(875)	–	(875)
	\$ (19,852)	\$ 897	\$ (20,749)	\$ 118,333	\$ 2,836	\$ 115,497

H&R is generally subject to tax in Canada under the Tax Act with respect to its taxable income each year, except to the extent such taxable income is paid or deemed to be payable to Unitholders and deducted by H&R for tax purposes.

Pursuant to H&R's Declaration of Trust, the Trustees intend to distribute or designate all taxable income directly earned by H&R to Unitholders of the Trust such that H&R will not be subject to income tax under Part 1 of the Tax Act.

Due to the specified investment flow-through ("SIFT") rules in Bill C-52 which received royal assent on June 22, 2007, the Trust commenced recognizing future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax basis of its assets and liabilities, including those related to its subsidiary trusts, that are expected to reverse in or after 2011. The SIFT rules are not expected to apply to H&R until 2011 as it provides a transition period for publicly traded trusts that existed prior to November 1, 2006. In addition, the SIFT rules will not apply to an entity that qualifies for the REIT exemption. On December 20, 2007, the Minister of Finance announced his intention to introduce technical amendments to the SIFT rules to make it easier to qualify for the REIT exemption, including removing any distinction between Canadian and foreign real properties.

Although the Trust currently complies with all the foreign income and property limitations for its U.S. portfolio, it does not meet certain other technical requirements for the REIT exemption. Management is of the view that it can make changes that are within its control in order to qualify for the REIT exemption prior to 2011. As the Trust currently does not qualify, GAAP requires the Trust to prepare its accounts on the basis that the new rules currently apply. Future income tax assets or liabilities are recorded using tax rates and laws expected to apply when the temporary differences are expected to reverse. The SIFT rules resulted in the Trust including a future income tax liability of \$116.4 million in the consolidated balance sheet at December 31, 2007, with a future income tax expense of \$115.5 million reflected as a charge to consolidated earnings for the year ended December 31, 2007 and a future income tax expense of \$0.9 million reflected as a charge to other comprehensive income (loss). Temporary differences expected to reverse in or after 2011 have been measured using a tax rate of 29.5% in 2011 and 28% thereafter. Of the amounts initially recorded in the second and third quarter of 2007, \$19.7 million was reversed during the three months ended December 31, 2007. The reversal during the quarter is due primarily to two reasons: (i) a rate decrease on income taxes payable in 2011 and 2012 to 29.5% and 28% respectively from the previous 31.5%; and (ii) \$246 million of discontinued operations which the Trust expects to dispose of in 2008. As a result, the timing differences on these discontinued operations are expected to reverse during the transition period when SIFT tax should not apply.

Future income taxes relating to other comprehensive income (loss) of \$0.9 million for both the quarter and the year ended December 31, 2007 (2006 – nil) represent future taxes to be paid on other comprehensive income (loss). This liability will decrease as other comprehensive income (loss) is transferred to earnings.

For the quarter ended December 31, 2007, current income taxes amounted to \$0.2 million (Q4 2006 – nil). For the year ended December 31, 2007, current income taxes amounted to \$0.4 million (December 31, 2006 – \$0.2 million). Substantially all the current income taxes are due to various U.S. State taxes.

Under United States tax law, H&R may be subject to tax on a portion of its United States source income. H&R intends to designate its directly held United States source income to Unitholders such that the Unitholders will be able to utilize any foreign tax credits paid by the Trust. For the three months ended December 31, 2007, the Trust had \$5.0 million (Q4 2006 – \$6.5 million) of taxable United States source income which was subject to U.S. withholding tax of \$0.5 million (Q4 2006 – \$0.7 million). For the year ended December 31, 2007, the Trust had \$22.8 million (December 31, 2006 – \$20.4 million) of taxable United States source income which was subject to U.S. withholding tax of \$2.3 million (December 31, 2006 – \$2.0 million).

On September 21, 2007, the fifth protocol (the "Protocol") to the Canada-U.S. Income Tax Convention was signed. When ratified, the Protocol will provide for the eventual elimination of withholding taxes on interest between related parties. If, as expected, ratification of the Protocol takes place in 2008, the current 10% withholding tax on cross-border interest payments between related parties (such as between the Trust and its wholly-owned U.S. subsidiary) would be reduced as follows:

- 7% as of January 1, 2008;
- 4% as of January 1, 2009, and
- 0% as of January 1, 2010 and later years.

See the "Tax Risk" section for a discussion of draft legislation proposed by the Minister of Finance regarding the federal income taxation of publicly traded income trusts and certain other publicly traded flow-through entities.

Non-controlling Interest

Net earnings attributable to the Class B unitholders of H&R Portfolio Limited Partnership ("HRLP"), a subsidiary partnership, have been segregated and deducted from the net earnings of the Trust. For a further discussion regarding non-controlling interest, please refer to "Financial Condition".

The non-controlling interest is separated between continuing operations and discontinued operations. The amount of non-controlling interest deducted from income from continuing operations for Q4 2007 is \$2.5 million (Q4 2006 – \$1.1 million). For the year ended December 31, 2007, the amount of non-controlling interest added to income from continuing operations is \$1.2 million (December 31, 2006 – (\$4.6 million)). See "Net Earnings from Discontinued Operations" below for the non-controlling interest deducted from income from discontinued operations.

Net Earnings from Discontinued Operations

When the Trust decides to dispose of an asset that no longer fits its investment strategy and re-deploy the proceeds towards more attractive opportunities or when a tenant exercises an option under the terms of its lease to purchase a property or when the Trust initiates the sale of an asset, the net property operating income, any gain or loss as a result of the sale and the attributable portion of non-controlling interest for those properties are combined on the income statement into net earnings from discontinued operations as summarized below:

<i>(in thousands of dollars)</i>	Three months ended December 31			Year ended December 31		
	2007	2006	Change	2007	2006	Change
Net property operating income	\$ 3,493	\$ 2,344	\$ 1,149	\$ 9,670	\$ 9,385	\$ 285
Income taxes	–	–	–	(2)	(1)	(1)
Gain on sale of income properties	2,563	20	2,543	9,686	6,028	3,658
Non-controlling interest	(315)	(130)	(185)	(1,029)	(924)	(105)
Net earnings from discontinued operations	\$ 5,741	\$ 2,234	\$ 3,507	\$ 18,325	\$ 14,488	\$ 3,837

During the three months ended December 31, 2007 the Trust sold two income properties and initiated the sale of 21 other properties. During the year ended December 31, 2007, the Trust sold a total of seven properties for gross proceeds of \$43.8 million. During the three months ended December 31, 2006, the Trust did not complete any sales of income properties. During the year ended December 31, 2006, the Trust completed the sale of three income properties. Assets which were sold during the current and previous years are as follows:

2007 Dispositions

Property	Property type	Date disposed	Square footage	Gross proceeds (\$ millions)	Ownership interest disposed
4211-137th Ave. & 4204-137th Ave., Edmonton, AB	Retail	Feb 01, 07	55,900	\$ 13.8	100%
300 Biscayne Cr., Brampton, ON	Industrial	Mar 28, 07	31,606	5.7	100%
388 Markland St., Markham, ON	Industrial	Jul 04, 07	79,039	7.1	100%
1459 Tiger Park Lane, Gulf Breeze, FL	Retail	Aug 21, 07	14,490	4.2	100%
1157 Azalea Ave., Richmond, VA	Retail	Aug 21, 07	13,905	4.3	100%
1350-1380 Matheson Blvd., E & 5391 Ambler Dr., Mississauga, ON	Industrial	Nov 01, 07	110,059	8.4	100%
780 O'Brien Rd., Renfrew, ON	Retail	Dec 21, 07	2,700	0.3	100%
Total			307,699	\$ 43.8	

2006 Dispositions

Property	Property type	Date disposed	Square footage	Gross proceeds (\$ millions)	Ownership interest disposed
380 Markland St., Markham, ON	Industrial	Jul 18, 06	81,222	\$ 7.4	100%
401-405 The West Mall, Etobicoke, ON	Office	Sep 01, 06	418,531	65.0	100%
16900-107 Ave., Edmonton, AB	Industrial	Sep 26, 06	172,070	10.7	100%
Total			671,823	\$ 83.1	

Distributable Income

Management uses distributable income ("DI") to reflect distributable cash which is defined in the Declaration of Trust and of which at least 80% must be distributed to Unitholders. The Trust currently distributes not less than 80% of its distributable income to Unitholders on a monthly basis.

As a primary objective of the Trust is to provide Unitholders with stable growing cash distributions, management considers DI to be an indicative measure in evaluating the Trust's performance. However, DI should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Trust's performance. See also "Non-GAAP Financial Measures". Depreciation, accrued rent, gains on sales, future income taxes and other non-cash items are added to, or deducted from, net earnings to determine the amount of income available for distribution. The most substantial adjustment to calculate DI is the adding back of depreciation to net earnings as it is management's belief that properly maintained and managed commercial real estate should not depreciate substantially over time and therefore no deduction is required.

The Trust has also issued Trust units to mirror the Class B Units of HRLP which gave rise to the non-controlling interest adjustment in determining net earnings. As these units have been issued and are outstanding and monthly distributions are made thereon as with all other units, DI will be adjusted by adding back these non-controlling interest amounts and the weighted and diluted weighted average number of units outstanding will reflect the actual number of units issued and outstanding.

In connection with the Trust's development of The Bow (as defined below under "Liquidity and Capital Resources – Capital Resources"), the Trust has provided a loan to a wholly-owned subsidiary of the Trust, and is charging an interest rate of 9% per annum. The interest earned on this loan is eliminated on consolidation but as the Trust considers it a cost of the project, the difference between the interest capitalized to the project in accordance with GAAP (currently 6.4%) and the 9% charged has been added back to DI.

Calculation of Distributable Income:

<i>(in thousands of dollars except unit and per unit amounts)</i>	Three months ended December 31		Year ended December 31	
	2007	2006	2007	2006
Net earnings (loss)	\$ 48,691	\$ 20,564	\$ (2,193)	\$ 86,437
Add (deduct)				
Depreciation of income properties	22,557	22,758	92,704	84,520
Net variable interest entities adjustment	75	52	302	183
Straight-lining of contractual rent	(3,614)	(5,248)	(18,302)	(21,586)
Amortization of intangible assets on acquisition	6,222	6,009	26,296	21,217
Amortization of above- and below-market rent	(350)	279	(720)	3,015
Amortization of mortgage premium	(532)	(552)	(2,354)	(2,043)
Gain on sale of income properties	(2,563)	(20)	(9,686)	(6,028)
Interest differential on The Bow project	890	-	2,360	-
Withholding taxes	501	654	2,284	2,038
Future income taxes	(20,515)	250	115,635	550
Net income/(loss) attributable to non-controlling interest	2,765	1,241	(123)	5,511
Distributable income	\$ 54,127	\$ 45,987	\$ 206,203	\$ 173,814
Distributions to unitholders	\$ 43,877	\$ 38,442	\$ 170,422	\$ 146,067
Distributions to non-controlling interest	2,390	2,326	9,558	9,307
Total distributions paid	\$ 46,267	\$ 40,768	\$ 179,980	\$ 155,374
Total distributions paid as a % of DI	85.5%	88.7%	87.3%	89.4%
Weighted average number of units (in thousands of units adjusted for conversion of non-controlling interest)	135,047	121,618	131,160	116,362
Diluted weighted average number of units (in thousands of units)	135,786	122,481	132,003	117,146
Basic (adjusted for conversion of non-controlling interest) DI per unit	\$ 0.401	\$ 0.378	\$ 1.572	\$ 1.494
Diluted DI per unit	\$ 0.399	\$ 0.375	\$ 1.562	\$ 1.484
Distributions paid per unit	\$ 0.343	\$ 0.334	\$ 1.370	\$ 1.334

The net increase in basic DI per unit of \$0.023 for the quarter ended December 31, 2007 as compared to the quarter ended December 31, 2006 and by \$0.078 for the year ended December 31, 2007 as compared to the year ended December 31, 2006 is comprised mainly of contractual rent increases and accretive acquisitions over the last two years. The strengthening of the Canadian dollar during last year resulted in a decrease to DI per unit of \$0.012 for the three months and \$0.016 per unit for the year ended December 31, 2007 over the comparative 2006 periods.

Distributions made for the respective three months ended December 31, 2007 and 2006 amounted to \$46.3 million and \$40.8 million. Distributions made for the year ended December 31, 2007 and 2006 amounted to \$180.0 million and \$155.4 million. The percentage of total distributions paid as a percentage of DI outlined above decreased marginally quarter over quarter and for the year ended December 31, 2007.

The tax deferred portion of distributions for 2007 is 47% as compared to 48% for the year ended December 31, 2006. This deferral will vary in any given year due to factors such as the size and timing of unit offerings, the amount and timing of acquisition of properties, the provision of mezzanine financing for development projects and capital gains or losses incurred in any one year.

The following is a reconciliation of the Trust's distributable income to cash provided by operations.

<i>(in thousands of dollars)</i>	Three months ended December 31		Year ended December 31	
	2007	2006	2007	2006
Distributable income	\$ 54,127	\$ 45,987	\$ 206,203	\$ 173,814
Change in other non-cash operating items	3,361	(5,723)	(36,496)	(36,211)
Straight-lining of contractual rent	3,614	5,248	18,302	21,586
Net variable interest entities adjustment	(75)	(52)	(302)	(183)
Rent amortization of tenant inducements	430	400	1,779	1,546
Amortization of deferred leasing expenses	1,109	1,116	4,434	4,321
Amortization of deferred financing expenses	—	495	—	1,874
Amortization of deferred costs	871	602	3,098	2,480
Amortization of mortgage premium	532	552	2,354	2,043
Interest differential on The Bow Project	(890)	—	(2,360)	—
Withholding taxes	(501)	(654)	(2,284)	(2,038)
Other	852	—	1,861	—
Cash provided by operations	\$ 63,430	\$ 47,971	\$ 196,589	\$ 169,232

* All of the above-noted adjustments made in order to reconcile DI to cash provided by operations of the Trust are discretionary in nature and the basis for each such adjustment is discussed below.

The Trust's definition of DI does not adjust for the change in other non-cash operating items, which represents balance sheet changes only and therefore is subtracted from DI in order to reconcile to cash provided by operations.

Straight-lining of contractual rent is deducted in calculating DI because the Trust does not receive this cash in the current period. Therefore straight-lining of contractual rent must be added back to reconcile to cash provided by operations.

Even though these are non-cash items, the Trust deducts rent amortization of tenant inducements, amortization of deferred leasing expenses, amortization of deferred financing expenses and amortization of deferred costs to arrive at DI as it is the Trust's intention that DI should be calculated on a net effective rental basis. All of these items are deducted when determining a net effective rental stream or net effective interest rate but are required to be added back to reconcile to cash provided by operations.

Amortization of mortgage premium is deducted in calculating DI as this is a non-cash item. This item is included within cash flows from financing on the statement of cash flows and not included in the reconciliation to cash provided by operations.

The Bow interest differential, while added back for DI purposes as discussed above, has been eliminated on consolidation and must therefore be deducted when calculating cash provided by operations.

Withholding taxes while added back to DI are deducted when reconciling back to cash provided by operations as these amounts are deducted in determining net income, which flows into cash provided by operations.

Other includes amortization relating to changing the amortization method on financial instruments from the straight line method to the effective interest rate method and the transfer of realized loss on cash flow hedges from accumulated other comprehensive loss to net earnings (loss). These items are added back for reasons similar to the other amortization items.

Segmented Information

H&R invests in three asset classes, being office, industrial and retail properties in both Canada and the United States.

The Trust is not required to report in its financial statements on the performance of each class of asset separately due to management's assessment that all assets effectively adhere to the same investment policy of being leased on a long-term basis to creditworthy tenants and financed where possible on a matching long-term basis and the fact that the Trust manages all assets on a similar basis.

Segmented disclosure is provided in the financial statements by net property operating income on a geographic basis as the property operations in the United States are considered to be a geographic segment. This segmented information on net property operating income is as follows:

Net Property Operating Income for the Three Months Ended December 31, 2007

<i>(in thousands of dollars)</i>	Canada	United States	Total
Operating revenue	\$ 124,695	\$ 25,353	\$ 150,048
Property operating costs	(47,972)	(3,879)	(51,851)
Mortgage and other interest expense	(31,100)	(12,049)	(43,149)
Depreciation of income properties	(16,602)	(5,894)	(22,496)
Amortization of deferred expenses and intangible costs	(6,377)	(1,805)	(8,182)
Net property operating income	\$ 22,644	\$ 1,726	\$ 24,370

Net Property Operating Income for the Three Months Ended December 31, 2006

<i>(in thousands of dollars)</i>	Canada	United States	Total
Operating revenue	\$ 116,209	\$ 27,197	\$ 143,406
Property operating costs	(43,409)	(4,397)	(47,806)
Mortgage and other interest expense	(30,668)	(13,209)	(43,877)
Depreciation of income properties	(14,989)	(6,548)	(21,537)
Amortization of deferred expenses and intangible costs	(5,786)	(2,092)	(7,878)
Net property operating income	\$ 21,357	\$ 951	\$ 22,308

Net Property Operating Income for the Year Ended December 31, 2007

<i>(in thousands of dollars)</i>	Canada	United States	Total
Operating revenue	\$ 469,766	\$ 112,371	\$ 582,137
Property operating costs	(167,350)	(16,824)	(184,174)
Mortgage and other interest expense	(122,085)	(53,415)	(175,500)
Depreciation of income properties	(61,960)	(26,215)	(88,175)
Amortization of deferred expenses and intangible costs	(23,718)	(7,978)	(31,696)
Net property operating income	\$ 94,653	\$ 7,939	\$ 102,592

Net Property Operating Income for the Year Ended December 31, 2006

<i>(in thousands of dollars)</i>	Canada	United States	Total
Operating revenue	\$ 430,957	\$ 98,336	\$ 529,293
Property operating costs	(150,534)	(14,524)	(165,058)
Mortgage and other interest expense	(120,111)	(47,901)	(168,012)
Depreciation of income properties	(55,797)	(23,678)	(79,475)
Amortization of deferred expenses and intangible costs	(20,528)	(7,747)	(28,275)
Net property operating income	\$ 83,987	\$ 4,486	\$ 88,473

Operating revenue from income properties in the United States has decreased slightly by \$1.8 million or 7% for the quarter ended December 31, 2007 compared to the same period in 2006. This decrease is due to the strengthening of the Canadian dollar as compared to the US dollar. U.S. operating revenue for the three months ended December 31, 2007 was USD \$26.6 million as compared to USD \$24.1 million, an 11% increase.

Operating revenue from income properties in the United States has increased by \$14.0 million or 14% for the year ended December 31, 2007 as compared to the year ended December 31, 2006. This increase is due to the numerous acquisitions that occurred in the United States over the past 24 months. The total value of U.S. assets in the portfolio decreased by a net \$212 million or 16% between the end of Q4 2006 and Q4 2007 due to the large increase in the value of the Canadian dollar during the past year. Had the exchange rate at December 31, 2006 been used as at December 31, 2007, the total value of the U.S. assets would have increased by \$203.6 million (a change of 18%).

Properties located in the United States comprise 25% of the Trust's income properties at December 31, 2007 (December 31, 2006 – 29%). However, such properties only comprise 7% of the Trust's net property operating income for the three months ended December 31, 2007 (December 31, 2006 – 4%) and only 8% of the Trust's net property operating income for the year ended December 31, 2007 (December 31, 2006 – 5%).

Use of Proceeds from Financing

Financing	Disclosed Use of Proceeds	Actual Use of Proceeds
Public offering of \$224.2 million of units completed on May 9, 2007.	To fund the acquisition of additional properties and land under development. Proceeds intended to fund the acquisition of additional properties or fund land under development and not initially used for such purposes were to be used to reduce the Trust's bank indebtedness.	The entire net proceeds were used to pay down the Trust's bank indebtedness on May 9, 2007. The equity component of acquisitions along with equity to fund land under development will continue to be obtained from the Trust's general operating facility as required until the Trust's overall percentage of indebtedness will be reached which will warrant a new public offering.

Financial Condition

Assets

Income Properties

Acquisitions of income properties during the year ended December 31, 2007 were in accordance with the Trust's investment strategy of acquiring quality assets occupied by long-term creditworthy tenants. Funds for these acquisitions were obtained primarily from the proceeds of a \$150.5 million Trust unit issue completed on November 8, 2006, proceeds of a \$224.2 million Trust unit issue completed on May 9, 2007, cash received from the sale of income properties as well as from the Trust's general operating facility and mortgages secured or assumed at closing or shortly thereafter.

2007 Acquisitions:

Property	Property type	Date acquired	Square footage	Cash consideration (\$ millions)	Mortgage assumed or secured on closing (\$ millions)	Ownership interest acquired
10679 N. Michigan Rd., Zionsville, IN	Retail	Jan 26, 07	64,862	\$ 15.2	\$ 11.3*	100%
51 Kelfield Dr., Toronto, ON	Industrial	Feb 14, 07	57,976	8.6	5.8	100%
2089 W. Neways Dr., Springville, UT	Office	Feb 26, 07	84,511	9.6	7.4*	55%
67 Thames St., Exeter, ON (land purchase)	Industrial	May 31, 07	—	0.3	—	100%
2900 Veterans Hwy., Metairie, LA	Retail	Jul 10, 07	52,848	12.6	9.3*	100%
Atlas Portfolio, various provinces, CAN	Industrial	Sep 25, 07	1,733,002	214.6	160.9	100%
Total			1,993,199	\$ 260.9	\$ 194.7	

* Indicates non-recourse. Non-recourse mortgages are generally non-recourse to the Trust but have recourse to the specific property to which the mortgage applies.

The dollar figures shown above for U.S. acquisitions are in Canadian dollars and are based on the exchange rates at the time of such acquisitions.

There were no acquisitions in Q4 2007. For the year ended December 31, 2007, the weighted average interest rate on the mortgages secured was 5.7% and the expected levered return on equity invested is approximately 12.1%.

A large decrease in income properties is attributable to the strong increase in the Canadian dollar over the past year. As at December 31, 2006, all U.S. properties were converted to Canadian dollars at a rate of \$1.17 per U.S. dollar. As at December 31, 2007, this rate has decreased to \$0.99 per U.S. dollar. This resulted in a decrease to income properties of approximately \$205 million.

An amount of \$3.4 million (December 31, 2006 – \$9.2 million) was capitalized to income properties during the year. Most of the costs capitalized related to acquisition costs of properties acquired.

After accounting for these acquisitions, the change in the foreign exchange rate, the dispositions mentioned previously and for depreciation and amortization expensed, income properties decreased by 2% to \$4.45 billion at December 31, 2007 (including income properties held for sale) from \$4.54 billion at December 31, 2006. The allocation of costs to income properties was done in accordance with the requirements of CICA EIC 140.

The portfolio remains relatively new and should require minimal capital expenditure in the future. The average age of the total portfolio from the date built or substantially renovated is 14.3 years at December 31, 2007 (December 31, 2006 – 13.0 years) and the split between asset class by age of property is as follows:

<i>(years)</i>	December 31, 2007	December 31, 2006
Office	17.1	16.2
Industrial	14.4	13.1
Retail	11.6	10.5
Total	14.3	13.0

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

Legal title to each of the United States properties is held by a separate legal entity which is 100% owned, directly or indirectly, by H&R REIT (U.S.) Holdings Inc. (the "Company"), a subsidiary of the Trust; the assets of each such separate entity are not available to satisfy the debts or obligations of any other person or entity; each such separate entity maintains separate books and records; the identity of the owner of a particular U.S. property is available from the Company. This structure does not prevent distributions to the entity owners provided there are no conditions of default.

The composition of the book value of income properties (including income properties held for sale) expressed by asset class and by region is as follows:

Book Value by Asset Class

<i>(millions)</i>	December 31, 2007	December 31, 2006
Office	\$ 1,535	\$ 1,582
Industrial	1,517	1,394
Retail	1,401	1,562
Total	\$ 4,453	\$ 4,538

Book Value by Region

<i>(millions)</i>	December 31, 2007	December 31, 2006
Ontario	\$ 1,934	\$ 1,925
Alberta	622	613
Other	483	427
Quebec	294	242
Canada	\$ 3,333	\$ 3,207
United States	1,120	1,331
Total	\$ 4,453	\$ 4,538

Land under Development

The Trust entered into agreements to develop The Bow, a 2 million square foot head office complex in Calgary, Alberta for an updated budgeted cost of approximately \$1.4 billion. The building is fully pre-leased to EnCana Corporation for 25 years. EnCana Corporation will begin to occupy the building in tranches commencing in the second half of 2011 with the final tranche scheduled to be occupied in 2012. In addition, the Trust will develop a further 100,000 square feet of retail space. During Q4 2007, the Trust invested an additional \$40.6 million in this project to bring the Trust's total investment to \$190.0 million (December 31, 2006 – nil).

On December 21, 2007, the Trust purchased a property under construction in Ajax, Ontario for \$109.6 million, which was the total cost expended by the vendor to date. H&R is responsible for completing the construction of the 910,000 square foot state of the art distribution/warehouse/cold storage facility which is expected to have a final all-in cost of approximately \$140 million. The building is pre-leased for a term of 20 years from May 1, 2008, the expected completion date. Upon completion, this property will transfer to income properties. As part of the transaction, the vendor granted H&R a two-year second mortgage in the amount of \$27.8 million, at a 6% interest rate. The Trust obtained construction financing for the balance of the purchase price. The total cost of the development as at December 31, 2007 was \$113.4 million.

During Q4 2007, the Trust exercised its purchase option and has commenced construction of the 348,000 square foot Phase III expansion of Bell Canada's state-of-the-art office complex in Mississauga, Ontario. The project has an estimated construction cost of \$148 million and is expected to be completed by July 2009. As at December 31, 2007, the amount spent on this development was \$33.1 million (December 31, 2006 – \$2.9 million).

An investment of \$25.4 million was made in March 2006 (in which the Trust has an 80% interest) to purchase 72 acres of development land located on Airport Road in Mississauga, Ontario. The project is expected to provide a total of 1.6 million square feet of single tenant industrial distribution facilities over the next few years. The Trust has secured bank indebtedness of \$12.1 million to fund part of its investment. This investment increased by \$2.3 million to \$29.6 million at December 31, 2007 from \$27.3 million at December 31, 2006.

The transactions above have given rise to a total consolidated asset in this category of \$366.1 million at December 31, 2007 (December 31, 2006 – \$30.2 million).

Deferred Expenses

<i>(in thousands of dollars)</i>	December 31, 2007	December 31, 2006
Deferred leasing	\$ 26,925	\$ 28,269
Deferred costs	18,153	14,870
Deferred financing	–	18,028
	\$ 45,078	\$ 61,167

Deferred leasing expenses relate to those expenditures incurred to re-lease premises once they become vacant through lease expiries or upon lease renewals and include costs such as legal fees, brokers' commissions, tenant improvements and allowances. These costs are deferred and amortized over the term of the specific lease to which they relate. After adjusting for amortization of \$4.4 million (including amortization included within discontinued operations), a reclassification to tenant inducements of \$0.4 million and a write off of \$0.2 million due to the sale of properties during the year, the total leasing costs incurred during the year ended December 31, 2007 was \$3.6 million (\$2.68 per square foot) (December 31, 2006 – \$0.8 million). Some of the larger costs during the year were incurred at the following properties:

- 310-330 Front St., Toronto, ON
- 1880 Matheson Blvd. E, Mississauga, ON
- 7500 Lundy's Lane, Niagara Falls, ON
- 2780-2800 Skymark Ave., Mississauga, ON
- 2 East Beaver Creek, Markham, ON
- 7065 Tranmere Dr., Mississauga, ON

Deferred costs represent those costs incurred under the Trust's capital improvement program which are deferred and amortized. Of the total of \$6.4 million incurred during the year ended December 31, 2007 (December 31, 2006 – \$7.6 million), the majority of these costs were incurred on the following properties:

- 291-295 The West Mall, Etobicoke, ON
- 4441-76th St., Calgary, AB
- 25 Sheppard Ave. W, Toronto, ON
- 26 Wellington St. E, Toronto, ON
- 310-330 Front St., Toronto, ON
- 55 Yonge St., Toronto, ON

The Trust expects to recover approximately 65% of these costs in accordance with the respective tenant leases.

Capital expenditure and non-recoverable maintenance required on the Trust's portfolio had been relatively immaterial prior to 2004. However, the Trust is committed to continuously maintaining and improving the quality of the assets in its portfolio through the implementation of its capital improvement program. The objective of this program is to regularly assess all properties to determine what improvements may be required to upgrade the quality or class of the asset and to enhance efficiencies in the operations of the property to improve cost control or obtain future cost savings. Currently, the majority of the program is aimed at the Trust's multi-tenant office portfolio which has experienced relative weakness over the last three years in terms of leasing demand and rental rates. This program is anticipated to carry on through the end of 2009 at the increased levels that the Trust has been experiencing since 2005.

Total expenditures for deferred costs that were incurred in 2005 and 2006 amounted to \$5.4 million and \$7.6 million, respectively. Currently, the budget for 2008 is \$8.9 million (of which the Trust expects to recover approximately 65% of these costs) and for 2009 is \$10.8 million (of which the Trust expects to recover approximately 65% of these costs). H&R expects to fund its capital expenditure program in part through its general operating facility and by refinancing mortgages that are expiring.

Deferred financing expenses represent expenditures incurred in securing financing on a property including legal fees, brokers' commissions and loan commitment fees. These costs were deferred and amortized over the term of the specific mortgage to which they relate. Effective January 1, 2007, deferred financing expenses are now included in the Trust's mortgages payable balance and are recognized in interest over the life of the applicable mortgage. This new accounting policy requires that the Trust use the effective interest method to recognize loan origination costs whereby the amount recognized varies over the life of the loan based on principal outstanding.

Accrued Rent Receivable

Certain leases call for rental payments that increase over their term. Accrued rent receivable records the rental revenue from these leases on a straight-line basis, resulting in accruals for rents that are not billable or due until future years. Accrued rent receivable has increased by 21% or \$17.5 million from \$82.9 million at December 31, 2006 to \$100.4 million at December 31, 2007 with a corresponding increase to rentals from income properties.

Other Assets

Cash and cash equivalents increased to \$24.7 million at December 31, 2007 from \$15.8 million at December 31, 2006. The increase is due primarily to an additional \$7.7 million (December 31, 2006 – nil) being held in escrow as a result of the sale of the two Walgreen properties in August 2007. These funds have been designated in accordance with a Section 1031 Exchange in the United States and the Trust used these funds during February 2008 (see "Subsequent Events"). Included in the balance at December 31, 2007 is \$4.5 million (December 31, 2006 – \$8.2 million) related to funds being held in escrow until the expiry of certain non-recourse public mortgage bonds and other non-recourse U.S. mortgages and amounts held in escrow for the repayment of mortgages.

Mortgages receivable was virtually unchanged between December 31, 2006 and December 31, 2007. At both December 31, 2007 and December 31, 2006, there was one property for which the Trust had provided mortgage vendor take-back financing totalling \$16.3 million (December 31, 2006 – \$16.1 million) with an interest rate of 5.3% per annum.

Tenant inducements represent those costs for which the Trust has given the tenant cash as an inducement to enter into a lease agreement. This amount is amortized over the life of the applicable lease and the amortization is deducted from rentals from income properties. Tenant inducements for the year ended December 31, 2007 increased by a net \$2.2 million primarily due to tenant inducements at 310-330 Front Street for Royal Bank of Canada who extended 45,000 square feet until the end of June 2014 and 71,000 square feet until the end of April 2015.

Prepaid expenses and sundry assets increased from \$12.4 million at December 31, 2006 to \$22.4 million at December 31, 2007, an increase of 80%. The increase is primarily a result of a \$10 million additional deposit classified as a sundry asset relating to an additional land purchase for The Bow which, upon the purchase of this piece of land, will move to land under development.

Accounts receivable decreased by \$1.7 million between December 31, 2006 and December 31, 2007. The decrease is due to fluctuations arising during the normal course of business operations.

Liabilities

H&R's Declaration of Trust limits the indebtedness of the Trust to a maximum of 65% of the gross book value ("GBV") of the Trust. The Trust's allocation of debt, including bank indebtedness, is as follows:

	December 31, 2007	December 31, 2006
Total debt to GBV ⁽¹⁾	60.9%	61.0%
Non-recourse debt as a percentage of total debt	49.5%	55.3%
Floating rate debt as a percentage of total debt	5.9%	2.3%

(1) At the Trust's annual and special unitholders meeting in May 2007, the Declaration of Trust was amended to exclude the Bow project and any guarantees related to joint ventures from the Trust's calculation of debt to GBV. The Trust's calculation of what is included in the computation of total debt to GBV ratio is not necessarily consistent with the definition of guarantees under GAAP.

There were no material changes in the allocation of debt as outlined above. The high percentage of non-recourse debt in the Trust's portfolio is a deliberate strategy adopted by the Trust to reduce risk within the property portfolio.

Mortgages Payable

Mortgages payable (including mortgages payable on income properties held for sale) decreased 0.5% from the December 31, 2006 figure of \$3.04 billion to \$3.02 billion at December 31, 2007. The change in the foreign exchange rate was a significant factor in the overall decrease. The December 31, 2007 mortgage balance was reduced by approximately \$152 million or 18% due to the stronger Canadian dollar year over year. In addition to regular principal repayments, other decreases to the mortgages payable balance during the year include repayment in full of six mortgages that matured during 2007. The total amount that was repaid for these six mortgages was \$30.1 million. Upon the disposition of one property, the Trust repaid the mortgage payable of \$2.9 million. The change to the new accounting standard for financial instruments also resulted in a decrease of approximately \$18 million. Increases to the mortgages payable balance are due to the transactions described in detail in "Income Properties" and "Land under Development" above, as well as four additional mortgages secured totalling \$48.5 million. One mortgage that matured during the year was refinanced for the amount due at maturity.

The mortgages bear interest at the weighted average rate of 6.3% (December 31, 2006 – 6.4%) and mature between 2008 and 2035. The weighted average term to maturity of the Trust's mortgages is 10.2 years (December 31, 2006 – 11.1 years). Going forward, the Trust anticipates being able to refinance all its debt as it matures. Only 5.2% of the total principal matures in 2008 and these mortgages bear interest at a weighted average rate on maturity of 9.2%. For a further discussion of interest rate risk, please see "Risks and Uncertainties".

Segmented disclosure (including mortgages payable on income properties held for sale) by geographic location is provided as follows:

<i>(in thousands of dollars)</i>	December 31, 2007	December 31, 2006
Canada	\$ 2,185,966	\$ 2,053,803
United States	836,425	982,562
Total	\$ 3,022,391	\$ 3,036,365

Bank Indebtedness

The Trust has the following three facilities:

- (i) A general operating facility limited to \$200 million which is secured by a first charge over certain income properties, is due on August 15, 2008 and can be drawn in either Canadian or U.S. dollars (with U.S. dollar loans being limited to a maximum Canadian equivalent of \$100 million). The Canadian dollar portion of the debt bears interest at rates approximating the prime rate of a Canadian chartered bank, while the U.S. portion of the debt (Canadian equivalent of \$0.02 million at December 31, 2007 compared to \$9.5 million at December 31, 2006) bears interest at LIBOR rates. At December 31, 2007 approximately \$53.2 million was still available under this line.

The Trust amended the credit agreement in December 2007 which allows for an increase of \$100 million to the general operating facility to a maximum amount of \$300 million subject to providing further properties as security.

- (ii) A facility to finance and construct a distribution centre in Ajax, Ontario totalling \$109.5 million. The amount available at December 31, 2007, after taking into account the bank indebtedness drawn of \$83.4 million (December 31, 2006 – nil) and the outstanding letters of credit, is \$22.4 million. The bank indebtedness bears interest at rates approximating the prime rate of a Canadian chartered bank; \$105.0 million is due on September 21, 2008 and \$4.5 million is due on demand.
- (iii) A facility of \$12.1 million (December 31, 2006 – \$12.1 million) to fund land under development in Mississauga, Ontario owned by the Trust through a joint venture. The loan bears interest at a spread over the bankers acceptance rate and is due on March 22, 2008.

Bank indebtedness increased by \$120.1 million from \$71.0 million at December 31, 2006 to \$191.1 million at December 31, 2007. The change is primarily as a result of the equity required for purchases made and the increase in land under development during the year ended December 31, 2007 offset by proceeds received in May 2007 from the equity offering and the funds received upon disposition of properties. These funds, when drawn, are primarily used for asset purchases and the provision of additional financing for development projects.

Intangible Liabilities

For all acquisitions subsequent to September 12, 2003, the acquisition cost is allocated to land, buildings and intangible costs. The portion of the purchase price that is allocated to "below-market-value rents" is recorded as a liability on the Trust's balance sheet and is amortized over the related lease. This amount has increased by a net \$0.1 million to \$68.5 million at December 31, 2007 as compared to \$68.4 million as at December 31, 2006 due to new acquisitions during the year offset by amortization of \$5.0 million.

The change in this liability in the future will be dependent upon the leases that are in place in future acquisitions and the rent in place as compared to market rents at the time of purchase of the related asset.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased by \$32.9 million from \$58.9 million at December 31, 2006 to \$91.8 million at December 31, 2007. The change is primarily due to accruals for the various development projects of \$27.1 million (December 31, 2006 – nil). There is also a general increase in other payables and accruals relating to transactions occurring in the normal course of business operations, which naturally increase as the Trust acquires more properties each year.

Future Income Tax Liability

Due to the specified investment flow-through rules in Bill C-52 which received royal assent on September 23, 2007, the Trust commenced recognizing future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax basis of its assets and liabilities, including those related to its subsidiary trusts, that are expected to reverse in or after 2011. Bill C-52 is not expected to apply to H&R until 2011 as it provides a transition period for publicly traded trusts that existed prior to November 1, 2006. In addition, Bill C-52 will not apply to an entity that qualifies for the real estate investment trust ("REIT") exemption. Although the Trust currently complies with all foreign income and property limitations for the U.S. portfolio, it does not meet certain other technical requirements for the REIT exemption. Management is of the view that it can

make changes that are within its control in order to qualify for the REIT exemption prior to 2011. As the Trust currently does not qualify, GAAP requires the Trust to prepare the Trust's accounts on the basis that the new rules currently apply. Future income tax assets or liabilities are recorded using tax rates and laws expected to apply when the temporary differences are expected to reverse. The SIFT rules (as defined below under "Critical Accounting Estimates – Income Tax") resulted in the Trust including a future income tax liability of \$116.4 million in the consolidated balance sheet at December 31, 2007, with a corresponding future income tax expense of \$115.5 million reflected as a charge to consolidated earnings for the year ended December 31, 2007 and a future income tax expense of \$0.9 million reflected as a charge to other comprehensive income (loss). Temporary differences expected to reverse in or after 2011 have been measured using a tax rate of 29.5% in 2011 and 28% thereafter.

Non-Controlling Interest

During November 2004, as part of the acquisition of substantially all of the 30% interest of the remaining properties in which the Trust acquired an initial 70% as part of its 1996 initial public offering, the Trust issued 6,974,555 Trust units to its subsidiary HRLP, which was set up to complete this transaction. The participating vendors exchanged their interest in these properties for 5,696,610 Class B units of HRLP as well as subscribing for an additional 1,277,945 Class B units of HRLP at the same time. These units are exchangeable on a one for one basis for Trust units.

As clarified by EIC-151, since these Class B units can be transferred without requirement and can be exchanged for Trust units, the aggregate outstanding amount at any point in time of the exchangeable Class B units of HRLP shall be recorded as a non-controlling interest on the Trust's financial statements until such time as these Class B units have been exchanged for Trust units. As Class B units are exchanged over time into Trust units, the conversion will result in a transfer to unitholders' equity and the non-controlling interest will accordingly be reduced as was the case in 2006 when 293,879 Class B units of HRLP issued in connection with the acquisition of an industrial portfolio transaction were exchanged for 293,879 Trust units.

Non-controlling interest decreased from \$112.9 million at December 31, 2006 to \$103.2 million at December 31, 2007 due primarily to \$9.6 million of distributions attributable to the non-controlling interest. In addition, a net loss of \$0.1 million was attributable to non-controlling interest for both continuing and discontinued operations.

Equity

Unitholders' Equity

Unitholders' equity increased by \$25.7 million between December 31, 2006 and December 31, 2007. The increase is due primarily to the public offering of \$224.2 million which was completed in May 2007, proceeds received from the Trust's distribution reinvestment plan and direct unit purchase plan offset by the change in the unrealized loss on translation of self-sustaining foreign operations, by distributions paid and by the net loss for the period, which is primarily due to the recording of a total future income tax liability of \$116.5 million.

Included in the change is a decrease of \$3.8 million which was recorded as an opening adjustment to Unitholders' equity due to the required change in accounting policy relating to financial instruments that was applied retroactively without restatement. See Section V for further details.

The majority of the accumulated other comprehensive loss is made up of the net adjustment to the equity invested in H&R REIT (U.S.) Holdings Inc., with the Trust's debt being held in U.S. dollars currently acting as a natural hedge against its total investment in U.S. dollars. This amount fluctuates continuously depending on the U.S. exchange rate at the end of the applicable accounting period, but is not a concern to management at this time as all the U.S. assets are long-term in nature. This amount (whether the adjustment is a gain or a loss) is taken into income only when the net investment in the self-sustaining foreign operations is reduced.

Liquidity and Capital Resources

Funds from Operations

Funds from operations ("FFO") is not a measure recognized under GAAP and does not have a standardized meaning prescribed by GAAP. FFO should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Trust's performance. However, FFO is an operating performance measure which is widely used by the real estate industry (and in particular, by a number of other Canadian real estate investment trusts) and the Trust has calculated FFO in accordance with the recommendations of the Real Property Association of Canada. Nevertheless, H&R's method of calculating FFO may differ from other issuers' methods and accordingly may not be comparable to similar measures presented by other issuers.

The use of FFO, combined with the required GAAP presentations, has been presented for the purpose of improving the understanding of operating results of REITs by the investing public and in making comparisons of REIT operating results more meaningful.

As FFO excludes depreciation, amortization, future income tax and gains and losses from property dispositions, it provides a performance measure that, when compared period over period, reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and realty taxes, acquisition activities and interest costs, and provides a perspective of the financial performance that is not immediately apparent from net income determined in accordance with GAAP.

Funds from Operations

<i>(in thousands of dollars except per unit amounts)</i>	Three months ended December 31		Year ended December 31	
	2007	2006	2007	2006
Net earnings (loss)	\$ 48,691	\$ 20,564	\$ (2,193)	\$ 86,437
Add (deduct)				
Depreciation of income properties	22,496	21,537	88,175	79,475
Amortization of deferred leasing expenses	1,102	1,003	3,990	3,841
Amortization of intangible assets on acquisitions	6,208	5,865	24,813	20,390
Net earnings/(loss) attributable to non-controlling interest	2,765	1,241	(123)	5,511
Future income taxes	(20,515)	250	115,635	550
Gain on sale of income properties	(2,563)	(20)	(9,686)	(6,028)
Operating income from discontinued operations	(3,493)	(2,344)	(9,668)	(9,384)
Funds from operations – continuing operations	\$ 54,691	\$ 48,096	\$ 210,943	\$ 180,792
Funds from operations – discontinued operations	3,575	3,822	16,124	15,736
Funds from operations	\$ 58,266	\$ 51,918	\$ 227,067	\$ 196,528
Funds from operations per unit (basic – adjusted for conversion of non-controlling interest)	\$ 0.431	\$ 0.427	\$ 1.731	\$ 1.689
Funds from operations per unit (diluted)	\$ 0.429	\$ 0.424	\$ 1.720	\$ 1.678

The following is a reconciliation of the Trust's funds from operations to cash provided by operations.

<i>(in thousands of dollars)</i>	Three months ended December 31		Year ended December 31	
	2007	2006	2007	2006
Funds from operations	\$ 58,266	\$ 51,918	\$ 227,067	\$ 196,528
Funds from operations – discontinued operations	(3,575)	(3,822)	(16,124)	(15,736)
Operating income from discontinued operations	3,493	2,344	9,668	9,384
Change in other non-cash operating items	3,361	(5,723)	(36,496)	(36,211)
Rent amortization	80	679	1,059	4,561
Other	852	–	1,861	–
Amortization of deferred financing expenses	–	495	–	1,874
Amortization of deferred costs	871	602	3,098	2,480
Amortization of deferred leasing included within discontinued operations	7	113	444	480
Amortization of intangible assets included within discontinued operations	14	144	1,483	827
Depreciation of income properties included within discontinued operations	61	1,221	4,529	5,045
Cash provided by operations	\$ 63,430	\$ 47,971	\$ 196,589	\$ 169,232

All items which are included in the above reconciliation of the Trust's funds from operations to cash provided by operations are non-cash items which are included in the calculation of funds from operations but are not included in the determination of cash provided by operations.

Capital Resources

The cash provided by operations of \$63.4 million for the three months ended December 31, 2007 and \$196.6 million for the year ended December 31, 2007 represent the primary source of funds to pay total distributions to Unitholders of \$46.3 million for the three months and \$180.0 million for the year ended December 31, 2007.

In accordance with National Policy 41-201, the Trust is required to provide the following additional disclosure relating to cash distributions.

<i>(in thousands of dollars)</i>	Three months ended December 31, 2007	Year ended December 31		
		2007	2006	2005
Cash provided by operating activities	\$ 63,430	\$ 196,589	\$ 169,232	\$ 110,417
Net earnings (loss)	48,691	(2,193)	86,437	86,653
Actual cash distributions paid or payable relating to the period	46,267	179,980	155,374	135,205
Excess (shortfall) of cash provided by operating activities over cash distributions paid	17,163	16,609	13,858	(24,788)
Excess (shortfall) of net earnings over cash distributions paid	2,424	(182,173)	(68,937)	(48,552)

For both the three months and the years ended December 31, 2007 and 2006, cash provided by operating activities exceeded cash distributions. Management expects this trend to continue.

Management expects cash distributions to continually exceed net earnings due to non-cash items which are deducted in determining net earnings. This did not occur during the three months ended December 31, 2007 due primarily to a reversal of \$19.6 million of future income taxes. Non-cash items such as future income taxes, depreciation and amortization, while deducted for net earnings have no impact on cash available to pay current distributions.

There are no material or unusual working capital requirements that currently exist other than the previously described items and there are no pending balance sheet conditions, income or cash flow items that may affect liquidity. There are no legal or practical restrictions on the ability of the Trust's subsidiaries to transfer funds to the Trust other than those funds classified as restricted cash.

Proceeds from the issuance of units together with proceeds on disposition of income properties, conventional mortgage financing and bank indebtedness have been used mainly to fund net property acquisitions and capital expenditures of \$252.6 million, land under development of \$308.7 million and mortgage principal repayments of \$116.6 million for the year ended December 31, 2007.

Management expects to be able to meet all of the Trust'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 the Trust's stable cash flow. The Trust is not in default or arrears on any of its obligations including distribution payments, interest or principal payments on debt and any debt covenant.

Short-term bank financing has been provided by the same chartered bank since the Trust's inception. This general operating facility is secured by income properties and management believes this facility will continue to be made available in the future as it represents a typical or standard loan facility provided by numerous financial institutions in the industry. At December 31, 2007, approximately \$53.2 million was still available under this facility. The Trust amended the credit agreement in December 2007 which allows for an increase of \$100 million to the general operating facility to a maximum of \$300 million subject to providing further properties as security.

Management believes that equity financings will continue to be available for H&R as a source of future liquidity. As these financings provide the primary source of funds for future acquisitions, should new equity become more scarce, property acquisitions can be accordingly deferred or postponed.

There are no unusual covenants in financial instruments that could trigger early repayment of the Trust's debt. The mortgages secured by the Trust are fairly standard in nature with typical default clauses contained therein. There are no debt levered tests outside of the 65% debt to GBV test or other covenants or circumstances that exist that management believes would impair the Trust's ability to operate.

Property acquisitions are a key component to providing growing but stable cash distributions for Unitholders, a key objective of the Trust. The Trust is currently contemplating acquisitions amounting to a gross value of approximately \$55 million (in addition to those described in "Subsequent Events", below) and expects total acquisitions to decrease on a dollar basis in 2008 as compared to 2007.

The following is a summary of material contractual obligations of the Trust including payments due for the next five years and thereafter:

Contractual Obligations

<i>(in thousands of dollars)</i>	Payments due by period					Total
	2008	2009–2010	2011–2012	2013 and thereafter		
Long-term debt	\$ 156,526	\$ 273,898	\$ 532,204	\$ 2,063,839	\$ 3,026,467	
Purchase obligations ⁽¹⁾	–	–	–	–	–	
Total contractual obligations	\$ 156,526	\$ 273,898	\$ 532,204	\$ 2,063,839	\$ 3,026,467	

(1) The purchase obligations represent the equity required only for those transactions where the Trust is legally bound to complete the transactions.

The Trust entered into agreements to develop a 2 million square foot office building in Calgary, Alberta (“The Bow”) fully pre-leased to EnCana Corporation for a 25-year term with an updated budgeted cost of approximately \$1.4 billion, of which \$190.0 million had been spent as at December 31, 2007. Construction commenced during spring of 2007 and is planned to be completed by 2012. In certain circumstances, should the delivery of tranches of space within the project be delayed, the Trust will be liable to the tenant for certain delay costs.

The Trust entered into an agreement to complete construction of a state-of-the-art distribution/warehouse/cold storage facility. The expected cost to complete is approximately \$27 million, which will be paid for via the construction financing line available for this project.

The Trust has also exercised its purchase option and has an obligation to complete construction on the Phase III expansion of Bell Canada’s complex in Mississauga, Ontario. The estimated cost to complete is approximately \$115 million. In the short term, the Trust expects to finance the construction costs via the Trust’s general operating facility or from the proceeds of asset dispositions.

The Trust has no material capital or operating lease obligations.

Funding of Future Commitments

H&R’s capacity to fund future acquisitions, capital expenditures and commitments was in excess of \$600 million as at December 31, 2007. This represented the amount that could be funded by the Trust from debt (fixed and short-term) before the Trust reached its maximum debt limitation of 65% of debt to its GBV of assets.

The material future commitments relating to construction are set out above. For The Bow, the Trust intends to secure construction financing during 2008. Prior thereto, the Trust expects to finance current construction costs via the Trust’s general operating facility, or from the proceeds of asset dispositions.

Off-Balance Sheet Items

The Trust has certain co-owners or partners in various projects. As a rule H&R does not provide guarantees or indemnities for these co-owners pursuant to property acquisitions because should such guarantees be provided, recourse would be available against the Trust in the event of a default of the borrowers, in which case the Trust would have a claim against the underlying real estate investment. However, in certain circumstances, where absolutely required but subject to compliance with the Trust’s Declaration of Trust and also, when management has determined that the fair value of the borrower’s investment in the real estate investment is greater than the mortgages payable for which the Trust has provided guarantees, such guarantees might be provided.

At December 31, 2007, such guarantees amounted to \$112.6 million, expiring between 2011 and 2017 and no amount has been provided for in the consolidated financial statements for these items. These amounts arise out of 11 properties where the Trust is a co-owner in the project. The Trust, however, customarily guarantees or indemnifies the obligations of its nominee companies which hold separate title to each of its properties owned.

Financial Instruments and Other Instruments

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using year end market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages payable at December 31, 2007 has been estimated at \$2.977 billion (2006 – \$3.147 billion) compared with the carrying value of \$3.022 billion (December 31, 2006 – \$3.036 billion).

The Trust used foreign exchange forward contracts to protect itself from currency fluctuations between the Canadian and U.S. dollar. The Trust had a forward contract totalling U.S. \$3.0 million which expired in January 2007. This contract was used to hedge the cash flow from three properties in the United States on which rent is paid in advance.

The Trust has an electricity contract to swap floating for fixed price rates as a cash flow hedge of price volatility of the Trust’s electricity costs in Ontario, Canada for a monthly notional amount of approximately 4,000 MWh until June 2008. The fair value of this contract at December 31, 2007 has been estimated at (\$0.1) million (December 31, 2006 – (\$0.1) million). See “Changes to Significant Accounting Policies for 2007” in Section V for further information.

Where appropriate, the Trust also uses forward contracts to lock in lending rates on certain anticipated mortgages. This strategy provides certainty in the rate of interest on borrowings when H&R is involved in transactions that might only close further into the future than during the normal timeframe of a transaction. At December 31, 2007, H&R had \$90.0 million of such forward contracts in place with regards to the distribution facility mentioned previously under “Land under Development”. The fair value of these forward contracts at December 31, 2007 is (\$2.5) million (December 31, 2006 – nil).

SECTION IV**Summary of Quarterly Results**

<i>(unaudited) (in thousands of dollars except per unit amounts)</i>	December 31, 2007	September 30, 2007 ⁽¹⁾	June 30, 2007 ⁽¹⁾	March 31, 2007 ⁽¹⁾
Rentals from income properties	\$ 149,494	\$ 143,328	\$ 142,450	\$ 144,276
Mortgage interest and other income	554	769	892	374
Net property operating income	24,370	27,993	25,790	24,439
Net earnings (loss) from continuing operations	42,950	21,135	(104,884)	20,281
Net earnings (loss) per unit from continuing operations				
(basic)	\$ 0.34	\$ 0.17	\$ (0.85)	\$ 0.17
(diluted)	\$ 0.34	\$ 0.17	\$ (0.85)	\$ 0.17
Net earnings (loss)	\$ 48,691	\$ 23,860	\$ (102,840)	\$ 28,096
Net earnings (loss) per unit				
(basic)	\$ 0.38	\$ 0.19	\$ (0.83)	\$ 0.24
(diluted)	\$ 0.38	\$ 0.19	\$ (0.83)	\$ 0.24

<i>(unaudited) (in thousands of dollars except per unit amounts)</i>	December 31, 2006 ⁽¹⁾	September 30, 2006 ⁽¹⁾	June 30, 2006 ⁽¹⁾	March 31, 2006 ⁽¹⁾
Rentals from income properties	\$ 142,909	\$ 133,610	\$ 128,886	\$ 122,056
Mortgage interest and other income	497	389	463	483
Net property operating income	22,308	22,118	21,891	22,156
Net earnings from continuing operations	18,330	17,623	17,761	18,235
Net earnings per unit from continuing operations				
(basic)	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.18
(diluted)	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.17
Net earnings	\$ 20,564	\$ 24,790	\$ 20,733	\$ 20,350
Net earnings per unit				
(basic)	\$ 0.18	\$ 0.22	\$ 0.19	\$ 0.20
(diluted)	\$ 0.18	\$ 0.22	\$ 0.19	\$ 0.19

(1) Certain items for all periods have been reclassified to conform with the presentation adopted in the current period.

Changes to the quarterly financial information are not reflective of seasonality or cyclicity but generally from new property acquisitions.

SECTION V**Critical Accounting Estimates**

The preparation of the Trust's financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. The Trust's financial statements have been prepared in accordance with GAAP.

Management believes the policies which are most subject to estimation and judgements are outlined below. For a detailed description of these and other accounting policies refer to note 1 of the December 31, 2007 audited consolidated financial statements of the Trust.

Impairment of Assets

The Trust is required to write down to fair value any of its income properties that have been determined to have been impaired. The analysis required is dependent upon a review of estimated future cash flows from operations over the anticipated holding period. This review involves subjective assumptions of, among other things, estimated occupancy and rental rates, all of which can affect the ultimate value of the property. In the event these factors result in a carrying value that exceeds the sum of future undiscounted cash flows expected to result from the ongoing use and ultimate residual value of the properties, an impairment would be recognized. During both 2007 and 2006, no impairments were recognized.

The Trust also evaluates the fair value of mortgages receivable to determine whether any impairment provisions are required. Impairment is recognized when the carrying value of the mortgage receivable will not be recovered as determined by the economic value of the underlying security and/or the financial covenant of the issuer of the security. No impairments of mortgages receivable were recorded during 2007 or 2006.

Depreciation of Income Properties

On the acquisition of a property, a significant portion of the cost is allocated per management's determination to the building component of the property. In addition, the Trust is required to assess the useful lives of its income properties in order to determine the amount of building depreciation to record on a quarterly and annual basis.

The Trust depreciates its income properties on a straight-line basis over their estimated useful lives. In the event the allocation to either the building or paving and equipment component is inappropriate or the estimated useful life of the properties are not correct, the amount of depreciation expensed quarterly and annually, which affects the Trust's future net earnings, might not be appropriate.

Property Acquisitions

For acquisitions of properties initiated on or after September 12, 2003, the Canadian Institute of Chartered Accountants ("CICA") has issued guidance for accounting for operating leases required in connection with these acquisitions. Through management's judgment and estimates, the purchase price must be allocated to land site improvements, building, the above- and below-market value of in-place operating leases, the fair value of tenant improvements, in-place leasing costs and the value of the relationship with the existing tenants.

These estimates will impact rentals from income properties, depreciation expense and amortization expense recorded on both a quarterly and an annual basis.

Variable Interest Entities

Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"), issued in September 2003 by the CICA provides guidelines for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. This guideline became effective for all accounting projects commencing on or after November 1, 2004. The Trust implemented AcG-15 effective January 1, 2005 and is required to consolidate all variable interest entities ("VIEs") for which it is determined to be the primary beneficiary. These determinations will impact mortgages receivable, land under development, bank indebtedness or mortgages payable where applicable, interest income and interest expense. Should the incorrect determination be made for VIEs, the Trust's assets and liabilities could be misstated and the amount of interest income and expense recognized quarterly and annually which affects the Trust's future net earnings might not be appropriate.

Income Tax

On June 22, 2007, legislation relating to the federal income taxation of a SIFT received royal assent (the "SIFT Rules"). A SIFT includes a publicly-listed or traded partnership and trust, such as an income trust and a REIT. The Trust is a SIFT. Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

The Trust uses the asset and liability method of accounting for income taxes. Future income taxes are recognized for the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the date of enactment or substantive enactment.

Changes to Significant Accounting Policies for 2007**Financial Instruments**

Effective January 1, 2007, the Trust adopted the new recommendations of the CICA Handbook Section 3251, "Equity"; Section 3855, "Financial Instruments – Recognition and Measurement"; Section 3865, "Hedges" and Section 1530, "Comprehensive Income", retroactively without restatement. These new Handbook Sections provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting.

Financial Instruments – Recognition and Measurement

Under Section 3855, financial instruments must be classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are initially measured at fair value and are subsequently measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost, using the effective interest method. Subsequent measurement and changes in fair value will depend on the initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income and available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Trust designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable and mortgages receivable are classified as loans and receivables, which are measured at amortized cost. Mortgages payable, bank indebtedness, and accounts payable and accrued liabilities are classified as other financial liabilities which are also measured at amortized cost. The Trust had neither available-for-sale, nor held-to-maturity instruments as at or during the year ended December 31, 2007.

All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless exempted from derivative treatment. All changes in their fair value are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. Financial guarantees are recorded at their inception date fair value. There were no significant fair values recorded in respect of these items on transition.

The impacts of this standard are:

- Deferred financing costs of \$14.6 million relating to the issuance of financial liabilities are no longer presented as a separate asset on the balance sheet and are now included in the carrying value of the financial liabilities as at January 1, 2007.
- Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception. At January 1, 2007, a transitional adjustment to accumulated net earnings of \$0.4 million was recorded related to changing the amortization method on financial instruments from the straight-line method to the effective interest rate method.

Hedges

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. In a cash flow hedging relationship, the effective portion of the change in fair value of the hedging derivative will be recognized in other comprehensive loss, net of tax. The ineffective portion will be recognized in net earnings.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in unitholders' equity during a period from transactions and other events from non-owner sources. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other comprehensive income (loss) until it is considered appropriate to recognize into net earnings.

The impacts of this standard are:

- To reclassify the previously deferred loss of \$3.4 million on settled cash-flow hedges from deferred financing costs to opening accumulated other comprehensive loss as at January 1, 2007. The deferred loss is transferred to earnings over the term of the related debt. The amortization of the loss has been included in comprehensive income.
- The effective portion of the fair value cash flow hedge loss of \$0.1 million at January 1, 2007 is recorded in prepaid expenses and sundry assets and other comprehensive loss.
- To reclassify the foreign currency translation account of self-sustaining operations to opening accumulated other comprehensive loss for all periods presented. Any gains or losses arising from the translation of self-sustaining operations are included in comprehensive income.

Future Changes in Significant Accounting Policies

The CICA released three new accounting standards that are effective for the Trust's fiscal year commencing January 1, 2008: Section 1535, "Capital Disclosures"; Section 3862, "Financial Instruments – Disclosures"; and Section 3863, "Financial Instruments – Presentation".

Section 1535 includes required disclosures of the Trust's objectives, policies and processes for managing capital, quantitative data about what the Trust regards as capital and whether the Trust has complied with any capital requirements.

Sections 3862 and 3863 replace the existing Section 3861, "Financial Instruments – Disclosure and Presentation". These new sections revise and enhance disclosure requirements, and carry forward unchanged existing presentation requirements. These new sections place an increased emphasis on disclosures and presentation regarding the risks associated with both recognized and unrecognized financial instruments and how the Trust manages those risks.

Internal Controls over Financial Reporting

No changes were made to the design of our internal controls over financial reporting during the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The financial statements and MD&A were reviewed by the audit committee and the Board of Trustees, which approved them prior to their publication.

H&R's management, including the CEO and CFO, does not expect that H&R's controls and procedures will prevent or detect all misstatements due to error or fraud. Due to the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within H&R have been detected. H&R is continually evolving and enhancing its systems of controls and procedures.

SECTION VI

Risks and Uncertainties

All income property investments are subject to a degree of risk and uncertainty. They are affected by various factors including general market conditions and local market circumstances. An example of general market conditions would be the availability of long-term mortgage financing whereas local conditions would relate to factors affecting specific properties such as an over supply of space or a reduction in demand for real estate in a particular area. Management attempts to manage these risks through geographic, asset class and tenant diversification in the Trust's portfolio. The major risk factors are outlined below, and in the Trust's Annual Information Form.

Interest Rate and Financing Risk

The Trust is exposed to financing risk on maturing mortgages and interest rate risk on its borrowings. It minimizes this risk by obtaining long-term, fixed rate debt to replace short-term floating rate borrowings. At December 31, 2007, the percentage of fixed rate debt to total debt was 94.1% (December 31, 2006 – 97.7%). In addition, the Trust matches the terms to maturity of its mortgages on specific properties to the corresponding lease terms to maturity as closely as possible. At December 31, 2007, the weighted average term to maturity of the mortgages was 10.2 years (December 31, 2006 – 11.1 years) compared to the remaining average lease term of 12.1 years (December 31, 2006 – 12.6 years). Only 5.2% of mortgages payable will be maturing in the next year. The Trust also minimizes financing risk by restricting total debt to 65% of aggregate assets as well as by obtaining non-recourse debt wherever possible. At December 31, 2007, the debt to GBV ratio was 60.9% (December 31, 2006 – 61.0%) while the percentage of non-recourse debt to total debt was 49.5% (December 31, 2006 – 55.3%).

Credit Risk and Tenant Concentration

The Trust is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. Management has diversified the Trust's holdings so that it owns several categories of properties (office, industrial and retail) and acquires properties throughout Canada and the United States. In addition, management ensures that no tenant or related group of tenants, other than investment grade tenants, account for a significant portion of the cash flow. The only tenants which account for more than 5% of the rentals from income properties of the Trust are Bell Canada, TransCanada PipeLines Limited, Telus Communications and Bell Mobility. Each of these companies that have a public debt rating, are rated with at least an A rating by a recognized rating agency.

The following table illustrates the Trust's 10 largest tenants (based on estimated future annualized gross revenue excluding the straight lining of contractual rent increases and discontinued operations) and the weighted average term remaining on their leases as at December 31, 2007:

Tenant	% of rentals from income properties	Lease term to maturity (years)
1. Bell Canada	9.1	16.8
2. TransCanada PipeLines Limited	7.0	13.0
3. Telus Communication	6.3	15.5
4. Bell Mobility	5.6	18.0
5. Rona Inc.	4.0	12.0
6. Eimskip Atlas Canada Inc.	3.6	19.0
7. Canadian Tire Corp.	3.4	18.8
8. Royal Bank of Canada	3.2	5.0
9. Lowes Companies Inc.	2.4	11.3
10. Nestle USA	2.0	9.8
Total	46.6%	

As indicated above, the Trust actively pursues highly creditworthy tenants which is further evidenced by its high occupancy rate of over 99% at both December 31, 2007 and December 31, 2006.

Construction Risk

The Trust's construction commitments are subject to those risks usually attributable to construction projects, which include (i) construction or other unforeseeable delays; (ii) cost overruns; (iii) the failure of tenants to occupy and pay rent in accordance with existing lease agreements, some of which are conditional; and (iv) increases in interest rates during the period of the development. See also the risk relating to The Bow below. Management expects to mitigate these risks where possible by entering into fixed price construction contracts with general contractors and by attempting to obtain long-term financing as early as possible during construction.

Development Risk Relating to The Bow

The Trust entered into agreements to develop The Bow, a 2 million square foot head office complex in Calgary, Alberta for an updated budgeted cost of approximately \$1.4 billion. The building is fully pre-leased to EnCana Corporation for 25 years. In addition, the Trust will develop a further 100,000 square feet of retail space which is not leased at this time. Construction commenced during the spring of 2007. EnCana Corporation will begin to occupy the building in tranches commencing in the second half of 2011 with the final tranche scheduled to be occupied in 2012.

The Trust is currently bearing the risk for construction overruns and project delays as the Trust does not have a fixed price contract on this project. The Trust is also at risk for interest rate fluctuations on this project during the construction period as well as the leasing risk on the retail space. To partially mitigate these risks, the Trust expects to enter where possible into fixed-price construction contracts with general contractors.

Lease Rollover Risk

Lease rollover risk arises from the possibility that H&R may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants upon lease expiry. Management's strategy is to sign tenants to leases that are long-term in nature which assists in the Trust's attempt to fulfill its primary goal of maintaining a predictable cash flow. The Trust has relatively few short to medium term lease rollovers which is illustrated in the previously disclosed table showing that leases representing only 11.0% of our total square footage expire over the next five years.

Mezzanine Financing Credit Risk

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

Currency Risk

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

Environmental Risk

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

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

Redemption Right

Unitholders are entitled to have their units redeemed at any time on demand. It is anticipated that this redemption right will not be the primary mechanism for Unitholders to liquidate their investments. The aggregate redemption price payable by the Trust is subject to limitations. The notes which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange, no established market is expected to develop for such notes and they may be subject to resale restrictions under applicable securities laws.

Liquidity Risk

Real estate investments are relatively illiquid. This fact will tend to limit H&R's ability to vary its portfolio promptly in response to changing economic or investment conditions. If for whatever reason, immediate liquidation of assets is required, there is a risk that sale proceeds realized might be less than the current book value of the Trust's investments.

Unitholder Liability

Investors in publicly traded trusts governed by the laws of Ontario are not liable for the activities of the Trust.

In addition, H&R's Declaration of Trust provides that Unitholders will have no personal liability for actions of the Trust and no recourse will be available to the private property of any Unitholder for satisfaction of any obligation or claims arising out of a contract or obligation of the Trust. The Declaration of Trust further provides that this Unitholder indemnity, where possible, must be provided for in certain contracts signed by the Trust, such as mortgages and leases. Where H&R purchases investments subject to existing contractual obligations that do not include such indemnification provisions, the Trust uses its best efforts to ensure such disclaiming provisions are included at the time of purchase or will be included in the future.

Tax Risk

The Trust currently qualifies as a Mutual Fund Trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of publicly-listed or traded trusts, as discussed below, income earned by the Trust and distributed annually to unitholders was not, and would not be, subject to taxation in the Trust, but was taxed at the individual unitholder level. For financial statement reporting purposes, the tax deductibility of the Trust's distributions was treated as an exemption from taxation as the Trust distributed and was committed to continue distributing all of its income to its unitholders. Accordingly, the Trust did not previously record a provision for income taxes, or future income tax assets or liabilities, in respect of the Trust or its investments in its subsidiary trusts.

On June 22, 2007, the SIFT Rules received royal assent. A SIFT includes a publicly-listed or traded partnership and trust, such as an income trust and a REIT. The Trust is a SIFT. Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

Under the SIFT Rules, the new taxation regime will not apply to a REIT that meets prescribed conditions relating to the nature of its income and investments. Although the Trust currently complies with all foreign income and property limitations for the U.S. portfolio, it does not meet certain other technical requirements for the REIT exemption and therefore is a SIFT. The REIT intends to restructure to qualify for the REIT exemption prior to 2011. However, if the REIT is unable to restructure, commencing in 2011, the Trust will become subject to tax on distributions of certain income.

The Trust operates in the United States through a wholly-owned subsidiary, H&R REIT (U.S.) Holdings Inc. ("U.S. Holdings") which is capitalized with both debt and equity provided by the Trust. As at December 31, 2007, U.S. Holdings borrowed approximately U.S. \$174 million from the Trust and paid interest of approximately U.S. \$21 million on such debt. In determining income for U.S. tax purposes, U.S. Holdings is subject to possible limitations on the deductibility of interest paid to the Trust on such debt. Section 163(j) of the Internal Revenue Code (the "Code") may apply to defer U.S. Holdings' deduction of interest paid on the debt to the Trust in years that (i) the debt to equity ratio of U.S. Holdings exceeds 1.5:1, and (ii) the net interest expense exceeds an amount equal to 50% of its "adjusted taxable income" (generally, earnings before interest, taxes, depreciation, and amortization). For fiscal 2007, U.S. \$14 million of the U.S. \$21 million in interest expense was disallowed by Section 163(j) of the Code, but such disallowance had no cash effect on U.S. Holdings. If this limitation applies to interest paid in a subsequent year, depending on the facts and circumstances and the availability of net operating losses to U.S. Holdings (which are subject to normal assessment by the Internal Revenue Service), the U.S. federal income tax liability of U.S. Holdings could increase. In such case, the amount of income available for distribution by the Trust to its unitholders could be reduced.

Related Party Transactions

H&R Property Management Ltd. (the "Property Manager"), a company owned by family members of the Chief Executive Officer, provides property management services for substantially all properties owned by the Trust, including leasing services, for a fee of 2% of gross revenue. In addition, the Property Manager provides support services in connection with the acquisition and development activities of the Trust for a fee of 2/3 of 1% of total acquisition costs, as defined in the agreement and effective January 1, 2007, is entitled to a fee equal to the amount previously paid in accordance with the annual incentive bonus pool. The current agreement is for four years expiring December 31, 2009 with two automatic five-year extensions.

During the three months ended December 31, 2007, the Trust recorded fees pursuant to this agreement of \$4.1 million (December 31, 2006 – \$5.2 million) of which \$0.01 million (December 31, 2006 – \$2.4 million) was capitalized to the cost of the income properties acquired, \$1.1 million (December 31, 2006 – nil) was capitalized to land under development and \$0.2 million (December 31, 2006 – \$0.1 million) was capitalized to deferred expenses. The Trust has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the three months ended December 31, 2007, a further amount of \$1.0 million (December 31, 2006 – \$0.6 million) has been expensed in the consolidated statement of earnings, in accordance with the annual incentive bonus pool payable to the Property Manager.

During the year ended December 31, 2007, the Trust recorded fees pursuant to this agreement of \$15.2 million (December 31, 2006 – \$16.9 million) of which \$1.7 million (December 31, 2006 – \$6.5 million) was capitalized to the cost of the income properties acquired, \$2.0 million (December 31, 2006 – nil) was capitalized to land under development and \$1.1 million (December 31, 2006 – \$1.9 million) was capitalized to deferred expenses. The Trust has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the year ended December 31, 2007, a further amount of \$3.7 million (December 31, 2006 – \$2.5 million) has been expensed in the consolidated statement of earnings, in accordance with the annual incentive bonus pool payable to the Property Manager.

Pursuant to the above agreements, as at December 31, 2007, \$3.3 million (December 31, 2006 – \$1.5 million) was payable to the Property Manager.

The Trust leases space to companies affiliated with the Property Manager. The rental income earned for the three months ended December 31, 2007 is \$0.3 million (December 31, 2006 – \$0.2 million) and for the year ended December 31, 2007 is \$1.1 million (December 31, 2006 – \$0.9 million).

The Trust received interest from a related company of the Property Manager. The interest income earned for the three months ended December 31, 2007 is nil (December 31, 2006 – nil) and for the year ended December 31, 2007 is \$0.4 million (December 31, 2006 – nil).

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

Outstanding Unit Data

The beneficial interests in the Trust are represented by a single class of units which are unlimited in number. Each unit carries a single vote at any meeting of unitholders. As at February 29, 2008, there were 135,678,053 trust units issued and outstanding.

A maximum of 5,800,000 units were authorized to be issued to the Trust's officers, employees and certain trustees. All such options had been issued prior to December 31, 2003. As at February 29, 2008, there were 1,854,666 options to purchase units outstanding.

SECTION VII

Outlook

A key objective of H&R is to provide growing but stable cash distributions for Unitholders. The Trust is constantly considering new property acquisitions following the same criteria and may from time to time consider a property disposition if such property no longer fits within the Trust's strategy. The Trust is currently contemplating acquisitions of approximately \$55 million and property dispositions with a net book value of \$245.6 million.

The Trust's strategy of purchasing or developing predominantly high-quality assets with strong tenants, both leased and financed on a long-term basis, has enabled the Trust to meet or exceed objectives in the past and is expected to continue into 2008 and beyond. Certain key statistics in the Trust's portfolio illustrate the effectiveness of the Trust's strategy and highlight its ability to continually produce stable income. The Trust's overall occupancy level of over 99%, leases representing only 11.0% of our total square footage expiring over the next five years, the average term to maturities of its leases over 12 years and the average term to maturity of its mortgages of over 10 years demonstrates the strength in H&R's strategies.

Cash distributions per unit on a monthly basis have increased by approximately 3% between 2007 and 2006, with annualized distributions in 2007 increasing to \$1.3704 per unit compared to \$1.3340 for the year ended December 31, 2006. The percentage payout of 87.3% for the year ended December 31, 2007 has decreased slightly over the prior year's percentage of 89.4%.

Effective January 1, 2008, the Trust announced an increase in the monthly distribution from \$0.1142 to \$0.1200 per unit per month, representing an annualized 2008 distribution of \$1.4400, a 5% increase over 2007. Management targets a payout ratio of 90% of DI.

One principal challenge faced by the Trust has been the strengthening of the Canadian dollar. An increase in the Canadian dollar relative to the U.S. dollar will result in a decrease to DI. The Trust's distributable income earned from properties in the United States is approximately U.S.\$36 million per annum.

Government of Canada bond yields have experienced volatility during 2007 and commercial mortgage lenders have widened their spreads. However, even with these wider spreads the lowering of bond yields has resulted in mortgage interest rates that are still below the 6.3% weighted average interest of the Trust's mortgages and well below the weighted average rate at maturity of 9.2% for mortgages maturing in 2008.

Subsequent Events

On February 12, 2008, the Trust exercised its option and purchased the remaining 45% of three department stores located in Pennsylvania and Maryland for gross proceeds of \$33 million.

Additional Information

Additional information relating to H&R, including H&R's Annual Information Form, is available on SEDAR at www.sedar.com.

Auditors' Report to the Unitholders

We have audited the consolidated balance sheets of H&R Real Estate Investment Trust as at December 31, 2007 and 2006 and the consolidated statements of earnings (loss), unitholders' equity and comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a horizontal line that starts under the "K" and ends under the "P", serving as a separator or underline.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

February 28, 2008

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of H&R Real Estate Investment Trust are the responsibility of management and have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies, which management believes are appropriate for the Trust, are described in note 1 to the consolidated financial statements. Management has also ensured that the financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the consolidated financial statements and the financial information contained elsewhere in the Annual Report. Estimates are necessary in the preparation of these statements and, based on careful judgements, have been properly reflected. Management has ensured that accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable.

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board is responsible for reviewing and approving the annual consolidated financial statements and reporting to the Board, making recommendations with respect to the appointment and remuneration of the Trust's Auditors, and reviewing the scope of the audit. Management recognizes its responsibility for conducting the Trust's affairs in compliance with established financial standards and applicable laws and maintaining proper standards of conduct for its activities.

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants which have full and unrestricted access to the Audit Committee. KPMG's report on the consolidated financial statements is presented herein. These consolidated financial statements and the accompanying Management's Discussion and Analysis have been approved by the Board of Trustees for inclusion in this Annual Report based on the review and recommendation of the Audit Committee.

Toronto, Ontario
February 28, 2008



Thomas J. Hofstedter
President and Chief Executive Officer



Larry Froom
Chief Financial Officer

Consolidated Balance Sheets

<i>(In thousands of dollars)</i>	December 31, 2007	December 31, 2006
Assets		
Income properties (note 3)	\$ 4,452,756	\$ 4,537,716
Land under development	366,055	30,224
Deferred expenses (note 4)	45,078	61,167
Accrued rent receivable	100,357	82,872
Other assets (note 5)	86,527	67,061
	\$ 5,050,773	\$ 4,779,040
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 6)	\$ 3,022,391	\$ 3,036,365
Bank indebtedness (note 7)	191,125	70,973
Intangible liabilities (note 8)	68,501	68,430
Accounts payable and accrued liabilities	91,849	58,881
Future income tax liability (note 24)	117,060	550
	3,490,926	3,235,199
Non-controlling interest (note 9)	103,211	112,892
Unitholders' equity (notes 10 and 11)	1,456,636	1,430,949
Commitments and contingencies (note 22)		
Subsequent event (note 26)		
	\$ 5,050,773	\$ 4,779,040

See accompanying notes to consolidated financial statements.

Approved by the Trustees:



Robert Dickson



Thomas J. Hofstedter

Consolidated Statements of Earnings (Loss)

(In thousands of dollars, except per unit amounts)

Years ended	December 31, 2007	December 31, 2006
Operating revenue:		
Rentals from income properties (note 12)	\$ 579,548	\$ 527,461
Mortgage interest and other income	2,589	1,832
	582,137	529,293
Operating expenses:		
Property operating costs	184,174	165,058
Mortgage and other interest expense (note 13)	175,500	168,012
Depreciation of income properties	88,175	79,475
Amortization of deferred expenses and intangible costs (note 14)	31,696	28,275
	479,545	440,820
Net property operating income (note 20)	102,592	88,473
Trust expenses	(5,929)	(9,101)
Net earnings before income taxes, non-controlling interest and discontinued operations	96,663	79,372
Income taxes (note 24)	(118,333)	(2,836)
Net earnings (loss) before non-controlling interest and discontinued operations	(21,670)	76,536
Non-controlling interest (note 9)	1,152	(4,587)
Net earnings (loss) from continuing operations	(20,518)	71,949
Net earnings from discontinued operations (note 21)	18,325	14,488
Net earnings (loss)	\$ (2,193)	\$ 86,437
Basic net earnings (loss) per unit (note 15):		
Continuing operations	\$ (0.17)	\$ 0.66
Discontinued operations	0.15	0.13
	\$ (0.02)	\$ 0.79
Diluted net earnings (loss) per unit (note 15):		
Continuing operations	\$ (0.17)	\$ 0.65
Discontinued operations	0.15	0.13
	\$ (0.02)	\$ 0.78

See accompanying notes to consolidated financial statements.

Consolidated Statements of Unitholders' Equity and Comprehensive Income (Loss)

Years ended December 31, 2007 and 2006

Unitholders' Equity (In thousands of dollars)	Value of units	Accumulated net earnings	Accumulated distributions	Accumulated other comprehensive loss (note 11)	Total
Unitholders' equity, December 31, 2005	\$ 1,275,464	\$ 570,465	\$ (625,124)	\$ (29,664)	\$ 1,191,141
Proceeds from issuance of units (note 10)	306,959	—	—	—	306,959
Issue costs	(12,023)	—	—	—	(12,023)
Net earnings	—	86,437	—	—	86,437
Distributions to unitholders	—	—	(146,067)	—	(146,067)
Other comprehensive income	—	—	—	4,502	4,502
Unitholders' equity, December 31, 2006	1,570,400	656,902	(771,191)	(25,162)	1,430,949
Adjustment to unitholders' equity to comply with new accounting standards (note 2)	—	(361)	—	(3,425)	(3,786)
Unitholders' equity, January 1, 2007 – restated	1,570,400	656,541	(771,191)	(28,587)	1,427,163
Proceeds from issuance of units (note 10)	268,577	—	—	—	268,577
Issue costs	(9,866)	—	—	—	(9,866)
Net loss	—	(2,193)	—	—	(2,193)
Distributions to unitholders	—	—	(170,422)	—	(170,422)
Other comprehensive loss	—	—	—	(56,623)	(56,623)
Unitholders' equity, December 31, 2007	\$ 1,829,111	\$ 654,348	\$ (941,613)	\$ (85,210)	\$ 1,456,636

Comprehensive Income (Loss)

(In thousands of dollars)

	2007	2006
Net earnings (loss)	\$ (2,193)	\$ 86,437
Unrealized gain (loss) on translation of self-sustaining foreign operations	(53,629)	4,502
Net unrealized loss on derivatives designated as cash flow hedges	(2,454)	—
Transfer of realized loss on cash flow hedges to net earnings	335	—
Future income taxes (note 24)	(875)	—
Other comprehensive income (loss)	(56,623)	4,502
Comprehensive income (loss)	\$ (58,816)	\$ 90,939

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands of dollars)

Years ended	December 31, 2007	December 31, 2006
Cash provided by (used in):		
Operations:		
Net earnings (loss)	\$ (2,193)	\$ 86,437
Items not affecting cash:		
Rent amortization (notes 12 and 21)	1,059	4,561
Depreciation of income properties	92,704	84,520
Amortization of deferred expenses and intangible costs (notes 14 and 21)	33,828	29,892
Gain on sale of income properties (note 21)	(9,686)	(6,028)
Other	1,861	—
Future income taxes (note 24)	115,635	550
Net earnings (loss) attributable to non-controlling interest (note 9)	(123)	5,511
Change in other non-cash operating items (note 16)	(36,496)	(36,211)
	196,589	169,232
Financing:		
Bank indebtedness	120,152	3,876
Mortgages payable:		
New mortgages payable	249,653	639,669
Principal repayments	(116,623)	(122,307)
Proceeds from issuance of units, net	258,711	288,680
Distributions to unitholders	(170,422)	(146,067)
Distributions to non-controlling interest (note 9)	(9,558)	(9,307)
	331,913	654,544
Investments:		
Land under development	(308,715)	(27,576)
Income properties:		
Net proceeds on disposition of income properties	41,793	83,046
Acquisitions and capital expenditures	(252,573)	(880,587)
Mortgages receivable	(140)	7,860
	(519,635)	(817,257)
Increase in cash and cash equivalents	8,867	6,519
Cash and cash equivalents, beginning of year	15,828	9,309
Cash and cash equivalents, end of year (note 5)	\$ 24,695	\$ 15,828
Supplemental cash flow information:		
Interest paid	\$ 191,634	\$ 176,325
Supplemental disclosure of non-cash financing and investing activities:		
Acquisitions of income properties through assumption of mortgages payable (note 23)	17,086	113,661
Acquisition of income properties through issuance of Class B units of H&R Portfolio Limited Partnership (note 9)	—	6,256

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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

Years ended December 31, 2007 and 2006

H&R Real Estate Investment Trust (the "Trust") is an unincorporated open-ended trust (note 10) 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. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reflect the following policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of all entities in which the Trust holds a controlling interest and the Trust also consolidated certain variable interest entities that are subject to control on a basis other than through ownership of a majority interest.

The Trust carries out a portion of its activities through co-ownership agreements and records its proportionate share of assets, liabilities, revenue, expenses and cash flows of all co-ownerships in which it participates.

All material transactions and balances have been eliminated upon consolidation.

(b) Income properties:

Income properties are recorded at cost less accumulated depreciation. The Trust reviews whether the income properties are impaired whenever events or changes in circumstances affect the ultimate value of the income property and indicate that the carrying amount may not be recoverable. An impairment is recognized if the sum of the estimated undiscounted future cash flows from operations and expected residual value is less than the carrying value of a particular asset. The impairment recognized is measured at the amount by which the carrying amount of the asset exceeds its fair value. Buildings are depreciated on a straight-line basis over a period not to exceed 40 years. Paving and equipment are depreciated on a straight-line basis over 10 years. Intangibles resulting from in-place leases are amortized over the related lease terms.

Upon acquisition of income properties, the Trust allocates the purchase price to the fair value of assets and liabilities including land, building and intangibles such as above- and below-market leases, in-place operating leases and customer relationship value.

(c) Deferred expenses:

Leasing costs, such as commissions and tenant improvements, are deferred and amortized on a straight-line basis over the terms of the related leases. Maintenance and repair costs are expensed against operations, while capital expenditures recoverable from tenants are amortized on a straight-line basis. The unamortized balance of all these costs is included in deferred expenses.

(d) Revenue recognition:

The Trust retains substantially all of the benefits and risks of ownership of its income properties and therefore, accounts for its leases with tenants as operating leases. Rentals from income properties include all amounts from tenants including recovery of operating costs.

Rental revenue from all leases is recognized on a straight-line basis over the term of the related lease. The difference between the rental revenue recognized and the amounts contractually due under the lease agreements is recorded in accrued rent receivable.

(e) Income taxes:

Pursuant to the terms of the Declaration of Trust, the trustees intend to distribute or designate all taxable income to unitholders of the Trust and deduct such distributions and designations for Canadian income tax purposes.

Income taxes are accounted for using the asset and liability method, whereby future income tax assets and liabilities are determined based on differences between the carrying amounts of these balances and their corresponding tax basis. Income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse (note 24).

(f) Unit option plan:

The Trust has a unit option plan available for officers, employees and certain trustees as disclosed in note 10(a). Any consideration paid by optionholders on exercise of unit options is credited to unitholders' equity. All options granted under the option plan are fair valued and expensed over the vesting period of three years.

(g) Cash and cash equivalents:

The Trust considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less from the acquisition date as cash and cash equivalents.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Actual results could differ from those estimates.

(i) Foreign currency translation:

The Trust accounts for its investments in the United States (“foreign operations”) as self-sustaining operations. Assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rates in effect at the balance sheet dates and revenue and expenses are translated at the average exchange rates for the years. The foreign currency translation adjustment is recorded as a separate component of accumulated other comprehensive income (loss) until there is a reduction in the Trust’s net investment in the foreign operations.

The U.S. dollar denominated bank indebtedness is designated as a hedge of the Trust’s investment in self-sustaining operations. Accordingly, the cumulative unrealized gains or losses arising from the translation of this obligation are recorded as a foreign currency translation adjustment in other comprehensive income (loss).

(j) Derivative financial instruments:

Derivative financial instruments are utilized by the Trust in its management of its foreign currency, interest rate and utility price exposures. The Trust formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Trust also formally assesses, both at the hedge’s inception and on an ongoing basis, whether hedging relationships will be highly effective. The fair value of the hedging instrument is recorded on the consolidated balance sheet. The effective portion of the hedge is recorded in other comprehensive income (loss). Once the gain (loss) is realized, this amount is recorded in earnings over the appropriate period.

The Trust at certain times will enter into foreign exchange contracts that hedge the currency risk attributable to forecasted U.S. dollar denominated interest payments on U.S. dollar denominated debt from its wholly owned subsidiary.

The Trust, in certain cases, enters into bond forward contracts to lock in interest rates on specific anticipated mortgages. For contracts qualifying as hedges, the gain or loss on settlement of the contract is reported in other comprehensive income (loss) recognized as an adjustment to interest expense over the term of the related mortgage.

(k) Land under development:

Land under development is stated at cost. If it is determined that the carrying amount exceeds the undiscounted estimated future net cash flows expected to be received from the ongoing use and residual value of the land, after taking into account estimated costs to complete the development, it is reduced to its estimated fair value.

Cost includes initial acquisition costs, other direct costs, realty taxes, capitalized interest and operating revenues and expenses during the period of development.

(l) Future changes in accounting policies:

Impact of adopting Sections 1535, 3862 and 3863:

The Canadian Institute of Chartered Accountants (“CICA”) released three new accounting standards that are effective for the Trust’s fiscal year commencing January 1, 2008: Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation.

Section 1535 includes required disclosures of the Trust’s objectives, policies and processes for managing capital, quantitative data about what the Trust regards as capital and whether the Trust has complied with any capital requirements.

Sections 3862 and 3863 replace the existing Section 3861, Financial Instruments – Disclosure and Presentation. These new sections revise and enhance disclosure requirements and carry forward unchanged existing presentation requirements. These new sections place an increased emphasis on disclosures and presentation regarding the risks associated with both recognized and unrecognized financial instruments and how the Trust manages those risks.

The Trust will be adopting these standards for the year ending December 31, 2008.

2. Change in accounting policies:**(a) Financial instruments:**

Effective January 1, 2007, the Trust adopted the new recommendations of the CICA Handbook Section 3251; Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges and Section 1530, Comprehensive Income, retroactively without restatement. These new handbook sections provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting.

(b) Financial instruments – recognition and measurement:

Under Section 3855, financial instruments must be classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are initially measured at fair value and are subsequently measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost, using the effective interest method. Subsequent measurement and changes in fair value will depend on the initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income and available-

for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Trust designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable and mortgages receivable are classified as loans and receivables, which are measured at amortized cost. Mortgages payable, bank indebtedness and accounts payable and accrued liabilities are classified as other financial liabilities which are also measured at amortized cost. The Trust had neither available-for-sale, nor held-to-maturity instruments as at or during the year ended December 31, 2007.

All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless exempted from derivative treatment. All changes in their fair value are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. Financial guarantees are recorded at their inception date fair value. There were no significant fair values recorded in respect of these items on transition.

The impacts of this standard are:

- (i) Deferred financing costs of \$14,603 relating to the issuance of financial liabilities are no longer presented as a separate asset on the consolidated balance sheet and are now included in the carrying value of the financial liabilities as at January 1, 2007.
- (ii) Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception. At January 1, 2007, a transitional adjustment to accumulated net earnings of \$361 was recorded related to changing the amortization method on financial instruments from the straight-line method to the effective interest rate method.

(c) Hedges:

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. In a cash flow hedging relationship, the effective portion of the change in fair value of the hedging derivative will be recognized in other comprehensive income (loss), net of tax. The ineffective portion will be recognized in net earnings.

(d) Comprehensive income (loss):

Comprehensive income (loss) is defined as the change in unitholders' equity during a period from transactions and other events from non-owner sources. This standard requires certain gains and losses, that would otherwise be recorded as part of net earnings, to be presented in other comprehensive income (loss) until it is considered appropriate to recognize into net earnings.

The impacts of this standard are:

- (i) To reclassify the previously deferred loss of \$3,374 on settled cash flow hedges from deferred financing costs to opening accumulated other comprehensive loss as at January 1, 2007. The deferred loss is transferred to earnings over the term of the related debt. The amortization of the loss has been included in comprehensive income (loss).
- (ii) The effective portion of the fair value cash flow hedge loss of \$51 at January 1, 2007 is recorded in prepaid expenses and sundry assets and other comprehensive income (loss).
- (iii) To reclassify the foreign currency translation account of self-sustaining operations to opening accumulated other comprehensive loss for all periods presented. Any gains or losses arising from the translation of self-sustaining operations are included in comprehensive income (loss).

3. Income properties:

			2007	2006
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
Land	\$ 846,014	\$ —	\$ 846,014	\$ 883,063
Buildings	3,166,491	286,441	2,880,050	3,105,713
Paving and equipment	125,766	32,515	93,251	90,459
	4,138,271	318,956	3,819,315	4,079,235
Intangible assets	454,943	70,850	384,093	408,600
Income properties held for sale (note 21)	259,353	22,745	236,608	45,098
Intangible assets held for sale (note 21)	14,550	1,810	12,740	4,783
	\$ 4,867,117	\$ 414,361	\$ 4,452,756	\$ 4,537,716

One industrial property, thirteen retail and seven office properties are currently held for sale as at December 31, 2007. The results of operations from these properties, and the properties sold during the year, have been separately disclosed as discontinued operations (note 21).

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

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

4. Deferred expenses:

			2007			2006
	Cost	Accumulated amortization	Net book value		Net book value	
Deferred leasing	\$ 40,858	\$ 13,933	\$ 26,925	\$	28,269	
Deferred costs	25,781	7,628	18,153		14,870	
Deferred financing (note 2)	–	–	–		18,028	
	\$ 66,639	\$ 21,561	\$ 45,078	\$	61,167	

5. Other assets:

	2007	2006
Cash and cash equivalents	\$ 24,695	\$ 15,828
Mortgage receivable	16,265	16,125
Tenant inducements	17,000	14,785
Prepaid expenses and sundry assets	22,416	12,447
Accounts receivable	6,151	7,876
	\$ 86,527	\$ 67,061

Cash and cash equivalents at December 31, 2007 includes cash on hand of \$19,128 (2006 – \$13,876) and bank term deposits of \$5,567 (2006 – \$1,952) at rates of interest varying between 3.78% to 4.60% (2006 – 4.08% to 4.26%); of these amounts approximately \$12,158 (2006 – \$8,163) is restricted cash.

The mortgage receivable is secured by real property, bears interest at 5.3% (2006 – 5.3%) per annum and is repayable between 2008 and 2009.

6. Mortgages payable:

The mortgages payable are secured by income properties and letters of credit in certain cases, bear fixed interest with a weighted average rate of 6.3% (2006 – 6.4%) per annum and mature between 2008 and 2035. Included in mortgages payable at December 31, 2007 are U.S. dollar denominated mortgages of U.S. \$844,874 (2006 – U.S. \$839,797). The Canadian equivalents of these amounts are \$836,425 (2006 – \$982,562).

Future principal mortgage payments are as follows:

Years ending December 31:

2008	\$ 152,033
2009	147,367
2010	112,868
2011	152,191
2012	356,129
Thereafter	1,982,512
	2,903,100
Deferred financing cost and fair value adjustments (note 2)	(3,714)
Mortgages payable on assets held for sale (note 21)	123,005
	\$ 3,022,391

7. Bank indebtedness:

The Trust has the following three facilities:

(a) A general operating facility which is secured by fixed charges over certain income properties due on August 15, 2008. The total facility is \$200,000 (2006 – \$180,000) and can be drawn in either Canadian or U.S. dollars (to a maximum of \$100,000 Canadian for U.S. borrowings). The amount available at December 31, 2007, after taking into account the bank indebtedness drawn of \$95,564 (2006 – \$58,834) and the outstanding letters of credit and other items, is \$53,181. The Canadian dollar bank indebtedness bears interest at rates approximating the prime rate of a Canadian chartered bank. At December 31, 2007, the Canadian prime interest rate was 6.0% (2006 – 6.0%) per annum.

The Trust amended the credit agreement in December 2007 which allows for an increase of \$100,000 to the general operating facility to a maximum amount of \$300,000 subject to providing further properties as security.

(b) A facility to finance and construct a distribution centre in Ajax, Ontario totalling \$109,500. The amount available at December 31, 2007, after taking into account the bank indebtedness drawn of \$83,422 (2006 – nil) and the outstanding letters of credit, is \$22,356. The bank indebtedness bears interest at rates approximating the prime rate of a Canadian chartered bank, \$105,000 is due on September 21, 2008 and \$4,500 is due on demand.

(c) A facility of \$12,139 (2006 – \$12,139) to fund land under development in Mississauga, Ontario owned by the Trust through a joint venture. The loan bears interest at a spread over the bankers' acceptance rate and is due on March 22, 2008.

Included in bank indebtedness at December 31, 2007 is U.S. \$18 (2006 – U.S. \$8,091). The Canadian equivalents of these amounts are \$18 (2006 – \$9,467). The U.S. dollar bank indebtedness bears interest at LIBOR rates.

8. Intangible liabilities:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Intangible liabilities on acquisitions of income properties	\$ 74,611	\$ 9,854	\$ 64,757	\$ 67,251
Intangible liabilities held for sale (note 21)	4,044	300	3,744	1,179
	\$ 78,655	\$ 10,154	\$ 68,501	\$ 68,430

9. Non-controlling interest:

Non-controlling interest represents the amount of equity related to the Class B units of a subsidiary partnership, H&R Portfolio Limited Partnership ("HRLP"), issued to participating vendors in exchange for properties acquired by HRLP. The accounts of HRLP are consolidated in these consolidated financial statements. Class B units of HRLP are only exchangeable on a one-for-one basis, at the option of the holder, into Trust units which have already been issued to HRLP.

Holders of the Class B units of HRLP are entitled to receive distributions on a per unit amount equal to a per Trust unit amount provided to holders of Trust units. To fund the distributions to Class B units, HRLP holds 6,974,555 units of the Trust at December 31, 2007 (2006 – 6,974,555).

The details of the non-controlling interest are as follows:

	Amount	Number of units
As at December 31, 2005	\$ 116,688	6,974,555
Issuance of Class B units of HRLP on March 30, 2006	6,256	293,879
Redemption of Class B units of HRLP on April 3, 2006	(6,256)	(293,879)
Non-controlling interest from continuing operations	4,587	–
Non-controlling interest from discontinued operations (note 21)	924	–
Distributions on Class B units of HRLP	(9,307)	–
As at December 31, 2006	112,892	6,974,555
Non-controlling interest from continuing operations	(1,152)	–
Non-controlling interest from discontinued operations (note 21)	1,029	–
Distributions on Class B units of HRLP	(9,558)	–
As at December 31, 2007	\$ 103,211	6,974,555

10. Unitholders' equity:

The Trust is an unincorporated open-ended trust. The beneficial interests in the Trust are represented by a single class of units which are unlimited in number. Each unit carries a single vote at any meeting of unitholders and carries the right to participate pro rata in any distributions. The unitholders have the right to require the Trust to redeem their units on demand. Upon the tender of their units for redemption by the Trust, all of the unitholder's rights to and under such units are surrendered and the unitholder is entitled to receive a price per unit as determined by a market formula. The redemption price payable by the Trust will be satisfied by way of a cash payment to the unitholder or, in certain circumstances, including where such payment would cause the Trust's monthly cash redemption obligations to exceed \$50, an in specie distribution of notes of H&R Portfolio LP Trust (a subsidiary of the Trust).

The following number of units are issued and outstanding:

As at December 31, 2005	110,624,316
Issued on March 30, 2006 (at a price of \$21.29 per unit)	293,879
Issued on April 28, 2006 (at a price of \$20.90 per unit)	5,985,000
Issued on November 8, 2006 (at a price of \$23.15 per unit)	6,500,000
Issued under the distribution reinvestment plan and direct unit purchase plan	1,126,119
Options exercised	55,365
	124,584,679
Units held by a subsidiary (note 9)	(6,974,555)
As at December 31, 2006	117,610,124
As at December 31, 2006	124,584,679
Issued on May 9, 2007 (at a price of \$25.30 per unit)	8,860,000
Issued under the distribution reinvestment plan and direct unit purchase plan	2,005,316
	135,449,995
Units held by a subsidiary (note 9)	(6,974,555)
As at December 31, 2007	128,475,440

(a) Unit option plan:

A maximum of 5,800,000 units were authorized to be issued to the Trust's officers, employees and certain trustees. All such options were issued prior to December 31, 2003. The exercise price of each option approximated the market price of the Trust's units on the date of grant. The options vested at 33.3% per year from the grant date, being fully vested after three years, and expire ten years after the date of the grant.

A summary of the status of the plan as at December 31, 2007 and 2006 and the changes during the year ended on those dates are as follows:

	2007		2006	
	Units	Weighted average exercise price	Units	Weighted average exercise price
Outstanding, beginning of year	1,854,666	\$ 12.81	1,910,031	\$ 12.83
Exercised	—	—	(55,365)	13.36
Outstanding, end of year	1,854,666	12.81	1,854,666	12.81
Options exercisable, end of year	1,854,666	\$ 12.81	1,854,666	\$ 12.81

The options outstanding at December 31, 2007 are all vested and are exercisable at varying prices ranging from \$12.01 to \$13.36 (2006 – \$12.01 to \$13.36) with a weighted average remaining life of 4.1 years (2006 – 5.1 years).

(b) Unitholders' rights plan:

The Trust has adopted a Unitholders' Rights Plan ("Rights Plan") effective June 23, 2006 to ensure that any takeover bid made for the units of the Trust would be made to all unitholders, treat all unitholders equally and provide the Board of Trustees with sufficient time to consider any such offer and encourage competing bids to emerge. The Rights Plan grants unitholders the right to acquire, under certain circumstances, additional units at a 50% discount from their then current market price. The Trust, with the consent of its unitholders or rights holders, may redeem each right at a nominal price. The Rights Plan will expire at the annual meeting of unitholders in 2009, unless terminated earlier.

(c) Distribution reinvestment plan and direct unit purchase plan:

The Trust has a distribution reinvestment plan and direct purchase plan for its unitholders which allows participants to reinvest their monthly cash distributions in additional Trust units at an effective discount of 3% and to purchase additional Trust units at an undiscounted price.

(d) Distributions:

Under the Declaration of Trust, subject to the discretion of the Trustees in certain circumstances, the Trust is required to distribute not less than 80% of Distributable Cash of the Trust (as defined in the Declaration of Trust), and net realized capital gains and net recapture income. Distributable Cash, in accordance with the Declaration of Trust, represents consolidated net income of the Trust as determined in accordance with GAAP adjusted to add back and deduct certain specified amounts and to make any other adjustments determined by the Trustees at their discretion. The Trust is required under the Declaration of Trust to distribute annually an amount equal to any excess of income of the Trust for tax purposes over distributions otherwise made for the year. For the year ended December 31, 2007, the Trust declared per unit distributions of \$1.3704 (2006 – \$1.3344).

11. Accumulated other comprehensive loss:

	2007	2006
Accumulated other comprehensive loss on cash flow hedges:		
Impact of new cash flow hedge accounting rules on January 1, 2007 (note 2)	\$ (3,425)	\$ –
Unrealized loss on interest rate derivative designated as a cash flow hedge	(2,475)	–
Unrealized gain on electricity derivative designated as a cash flow hedge	21	–
Transfer of realized loss on cash flow hedges to net earnings	335	–
Future income taxes (note 24)	(875)	–
Balance, end of year	(6,419)	–
Accumulated other comprehensive loss on translation of foreign operations:		
Balance, beginning of year	(25,162)	(29,664)
Unrealized gain (loss) on translation of self-sustaining foreign operations	(53,629)	4,502
Balance, end of year	(78,791)	(25,162)
Total accumulated other comprehensive loss	\$ (85,210)	\$ (25,162)

12. Rentals from income properties:

	2007	2006
Rentals from income properties	\$ 562,949	\$ 510,071
Straight-lining of contractual rent	17,839	21,815
Rent amortization of above- and below-market rents	539	(2,879)
Rent amortization of tenant inducements	(1,779)	(1,546)
	\$ 579,548	\$ 527,461

13. Mortgage and other interest expense:

	2007	2006
Mortgage interest	\$ 181,811	\$ 166,861
Amortization of mortgage premium	(2,130)	(1,941)
Bank interest and charges	3,698	4,039
	183,379	168,959
Less capitalized interest	7,879	947
	\$ 175,500	\$ 168,012

14. Amortization of deferred expenses and intangible costs:

	2007	2006
Amortization of deferred leasing expenses	\$ 3,990	\$ 3,841
Amortization of deferred financing expenses (note 2)	–	1,810
Amortization of deferred costs	2,893	2,234
Amortization of intangible assets on acquisitions	24,813	20,390
	\$ 31,696	\$ 28,275

15. Net earnings (loss) per unit:

	2007	2006
Net earnings (loss)	\$ (2,193)	\$ 86,437
Add net earnings (loss) attributable to non-controlling interest (note 9)	(123)	5,511
Diluted net earnings (loss)	\$ (2,316)	\$ 91,948

The weighted average number of units outstanding was as follows:

	2007	2006
Basic units	124,185,228	109,387,142
Effect of dilutive securities:		
Unit option plan	842,894	784,102
Non-controlling interest conversion to units (note 9)	6,974,555	6,974,555
Diluted units	132,002,677	117,145,799
Net earnings (loss) per unit:		
Basic	\$ (0.02)	\$ 0.79
Diluted	(0.02)	0.78

16. Change in other non-cash operating items:

	2007	2006
Deferred expenses	\$ (9,651)	\$ (19,500)
Accrued rent receivable	(17,900)	(22,421)
Tenant inducements	(4,048)	(435)
Prepaid expenses and sundry assets	(9,999)	5,616
Accounts receivable	1,725	(3,224)
Accounts payable and accrued liabilities	3,377	3,753
	\$ (36,496)	\$ (36,211)

17. Risk management:

The Trust is exposed to interest rate risk on its borrowings. It minimizes this risk by restricting total debt to 65% of aggregate assets and by attaining long-term fixed rate debt to replace short-term floating rate borrowings. In addition, management considers the weighted average term to maturity of long-term debt relative to the remaining average lease terms.

The Trust is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. Management has diversified the Trust's holdings so that it owns several categories of properties (office, industrial and retail) and acquires properties throughout Canada and the United States. In addition, management reviews exposures to tenants or related groups of tenants. As at December 31, 2007, approximately 50% of the total debt was non-recourse to the Trust but the creditors have recourse to the specific property to which the mortgage applies.

The Trust is also exposed to credit risk as a lender on the security of real estate in the event that a borrower is unable to make the contracted payments. Such risk is mitigated through credit checks and related due diligence of the borrowers and through careful evaluation of the worth of the underlying assets.

The Trust is exposed to foreign exchange fluctuations as a result of ownership of assets in the United States. In order to mitigate a portion of the risk of significant fluctuations, the Trust's debt on these properties is also held in U.S. dollars to act as a partial natural hedge.

Fair values:

The fair values of the Trust's mortgage receivable, accounts receivable, cash and cash equivalents, bank indebtedness and accounts payable and accrued liabilities approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments.

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using year-end market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages payable at December 31, 2007 has been estimated at \$2,976,786 (2006 – \$3,146,936) compared with the carrying value of \$3,022,391 (2006 – \$3,036,365).

The Trust has an electricity contract to swap floating for fixed price rates as a cash flow hedge of price volatility of the Trust's electricity costs in Ontario, Canada. The electricity swap contract hedges a monthly notional amount of approximately 4,000 MWh until June 2008. The fair value of this contract at December 31, 2007 has been estimated at (\$30) (2006 – (\$51)).

The Trust has entered into a forward contract to lock in the government of Canada ten-year bond yield on an anticipated mortgage for a distribution centre in Ajax, Ontario. The Trust is accounting for this contract as a cash flow hedge. The fair value of this forward contract at December 31, 2007 has been estimated at (\$2,475) (2006 – nil).

18. Joint venture and co-ownership activities:

These consolidated financial statements include the Trust's proportionate share of assets, liabilities, revenue, expenses and cash flows of the joint ventures and co-ownerships. The Trust's proportionate share of these joint ventures and co-ownerships range between 20% and 98.5%, summarized as follows:

	2007	2006
Assets	\$ 163,152	\$ 164,322
Liabilities	90,043	90,381
Revenue	27,000	26,617
Expenses	19,112	18,674
Operating income from properties	7,887	7,943
Cash flows provided by operations	10,486	8,185
Cash flows provided by (used in) financing	(8,582)	20,011
Cash flows used in investments	(2,274)	(27,307)

19. Related party transactions:

H&R Property Management Ltd. (the "Property Manager"), a company owned by family members of the Chief Executive Officer, provides property management services for substantially all properties owned by the Trust, including leasing services, for a fee of 2% of gross revenue. In addition, the Property Manager provides support services in connection with the acquisition and development activities of the Trust for a fee of 2/3 of 1% of total acquisition costs, as defined in the agreement and effective January 1, 2007, and is entitled to a fee equal to the amount previously paid in accordance to the annual incentive bonus pool. The current agreement is for four years expiring December 31, 2009 with two automatic five-year extensions.

During the year ended December 31, 2007, the Trust recorded fees pursuant to this agreement of \$15,194 (2006 – \$16,891), of which \$1,748 (2006 – \$6,489) was capitalized to the cost of the income properties acquired, \$2,002 (2006 – nil) was capitalized to land under development and \$1,052 (2006 – \$1,949) was capitalized to deferred expenses. The Trust has also reimbursed the Property Manager for certain direct property operating costs and tenant construction costs.

For the year ended December 31, 2007, a further amount of \$3,660 (2006 – \$2,490) has been expensed in the consolidated statement of earnings, in accordance with the annual incentive bonus pool, payable to the Property Manager.

Pursuant to the above agreements, as at December 31, 2007, \$3,254 (2006 – \$1,526) was payable to the Property Manager.

The Trust leases space to companies affiliated with the Property Manager. The rental income earned for the year ended December 31, 2007 is \$1,130 (2006 – \$949).

The Trust received interest from a related company of the Property Manager. The interest income earned for the year ended December 31, 2007 is \$385 (2006 – nil).

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

20. Segment disclosures:

Segmented information on identifiable assets by geographic region and property operating income is as follows:

Capital assets are attributed to countries based on the location of the properties.

Income properties and land under development:

	2007	2006
Canada	\$ 3,699,210	\$ 3,236,678
United States	1,119,601	1,331,262
	\$ 4,818,811	\$ 4,567,940

Net property operating income:

2007	Canada	United States	Total
Operating revenue	\$ 469,766	\$ 112,371	\$ 582,137
Property operating costs	(167,350)	(16,824)	(184,174)
Mortgage and other interest expense	(122,085)	(53,415)	(175,500)
Depreciation of income properties	(61,960)	(26,215)	(88,175)
Amortization of deferred expenses and intangible costs	(23,718)	(7,978)	(31,696)
	(375,113)	(104,432)	(479,545)
Net property operating income	\$ 94,653	\$ 7,939	\$ 102,592
2006	Canada	United States	Total
Operating revenue	\$ 430,957	\$ 98,336	\$ 529,293
Property operating costs	(150,534)	(14,524)	(165,058)
Mortgage and other interest expense	(120,111)	(47,901)	(168,012)
Depreciation of income properties	(55,797)	(23,678)	(79,475)
Amortization of deferred expenses and intangible costs	(20,528)	(7,747)	(28,275)
	(346,970)	(93,850)	(440,820)
Net property operating income	\$ 83,987	\$ 4,486	\$ 88,473

21. Net earnings from discontinued operations:

The Trust sold seven properties in 2007. There are 21 remaining properties held for sale as at December 31, 2007. For the year ended December 31, 2006, there were three additional properties classified as discontinued operations, which were all sold in the third quarter of 2006. The results of operations from these properties have been separately disclosed below:

	2007	2006
Operating revenue:		
Rentals from income properties	\$ 36,421	\$ 39,261
Straight-lining of contractual rent	463	(229)
Rent amortization of above- and below-market rents	181	(136)
	37,065	38,896
Rentals from income properties	15	11
Mortgage interest and other income		
	37,080	38,907
Operating expenses:		
Property operating costs	12,568	14,259
Mortgage interest	8,397	8,700
Amortization of mortgage premium	(224)	(102)
Bank interest and charges	8	3
Depreciation of income properties	4,529	5,045
Amortization of deferred leasing expenses	444	480
Amortization of deferred financing expenses	–	64
Amortization of deferred costs	205	246
Amortization of intangible assets on acquisition	1,483	827
	27,410	29,522
Net property operating income	9,670	9,385
Income taxes	(2)	(1)
Gain on sale of income properties	9,686	6,028
Non-controlling interest (note 9)	(1,029)	(924)
Net earnings from discontinued operations	\$ 18,325	\$ 14,488

22. Commitments and contingencies:

(a) The Trust has entered into agreements to develop a 2 million square foot office building in Calgary, Alberta (the “Bow Development”) fully pre-leased to EnCana Corporation for a 25-year term with a budgeted cost of approximately \$1,400,000. Construction commenced in the spring of 2007 and is planned to be completed in 2012 to meet the completion timetable. In certain circumstances, should the delivery of tranches of space within the project be delayed, the Trust will be liable to the tenant for certain delay costs. In addition, the Trust will be developing an adjoining south block of the Bow Development which will include a further 0.2 million square-foot retail and cultural complex. The costs for the cultural portion of approximately 0.1 million square feet will be reimbursed by EnCana Corporation. As at December 31, 2007, the Trust had not yet secured long-term debt financing or arranged a fixed price contract with a general contractor and as a result the Trust is bearing the risk of project cost overruns. As at December 31, 2007, the total cost incurred on the project amounted to \$190,000.

(b) In the normal course of operations, the Trust has issued letters of credit in connection with financings, operations and acquisitions. As at December 31, 2007, the Trust has outstanding letters of credit totalling \$54,952 (2006 – \$16,213), including \$21,503 (2006 – \$15,439) which has been pledged as security for certain mortgages payable. These letters of credit are secured in the same manner as the bank indebtedness (note 7).

At December 31, 2007, the Trust had issued guarantees amounting to \$112,554 (2006 – \$120,822) which expire between 2011 and 2017 and no amount had been provided for in the consolidated financial statements for these items. These amounts arise where the Trust has guaranteed a co-owner’s share of the mortgage liability. The Trust has recourse to the co-owner’s share of the assets in the event the guarantees are called upon.

(c) The Trust is involved in litigation and claims in relation to the income properties that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial statements.

(d) The Trust is a lessee under four ground leases that expire between 2018 and 2038.

Future minimum commitments under the leases are as follows:

2008		\$	183
2009			183
2010			183
2011			183
2012			185
Thereafter			2,014
		\$	2,931

23. Acquisitions:

During the year ended December 31, 2007, the Trust acquired 16 (2006 – 68) income properties. The following table summarizes the acquired net assets at fair value on their respective dates of acquisition:

	2007		2006	
Assets				
Land	\$	49,362	\$	196,928
Land under a capitalized lease		–		7,117
Building		159,274		654,218
Paving and equipment		23,935		25,792
Sundry assets		465		6,075
Intangible above-market rent leases		2,816		10,038
Intangible acquired in-place lease costs		33,843		127,587
Customer relationship value		6,283		18,486
		275,978		1,046,241
Liabilities				
Mortgages payable		17,086		113,661
Intangible below-market rent leases		8,676		53,619
		25,762		167,280
Net assets acquired	\$	250,216	\$	878,961
Settled by:				
Cash	\$	250,216	\$	872,705
Issue of units (note 10)		–		6,256
	\$	250,216	\$	878,961

24. Income taxes:

The Trust currently qualifies as a Mutual Fund Trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of publicly-listed or traded trusts, as discussed below, income earned by the Trust and distributed annually to unitholders was not, and would not be, subject to taxation in the Trust, but was taxed at the individual unitholder level. For financial statement reporting purposes, the tax deductibility of the Trust's distributions was treated as an exemption from taxation as the Trust distributed and was committed to continue distributing all of its income to its unitholders. Accordingly, the Trust did not previously record a provision for income taxes, or future income tax assets or liabilities, in respect of the Trust or its investments in its subsidiary trusts.

On June 22, 2007, legislation relating to the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT"), received royal assent (the "SIFT Rules"). A SIFT includes a publicly-listed or traded partnership or trust, such as an income trust and a real estate investment trust (a "REIT"). The Trust is a SIFT, as discussed below.

Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

A SIFT which was publicly listed before November 1, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. The Trust has not exceeded such limits.

Under the SIFT Rules, the new taxation regime will not apply to a REIT that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). As currently structured, the Trust does not meet the REIT Conditions and therefore is a SIFT. Accordingly, commencing in 2011, the Trust will become subject to tax on distributions of certain income. The Trust intends to take the necessary steps to qualify for the REIT Conditions prior to 2011.

Due to the SIFT Rules, the Trust commenced recognizing future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax basis of its assets and liabilities, including those related to its subsidiary trusts, that are expected to reverse in or after 2011. Future income tax assets and liabilities are recorded using tax rates and laws expected to apply when the temporary differences are expected to reverse. The SIFT Rules resulted in the Trust including a future income tax liability of \$116,400 in the consolidated balance sheet at December 31, 2007, with a corresponding future income tax expense of \$115,525 reflected in consolidated earnings (loss) and \$875 reported in other comprehensive income (loss).

The October 30, 2007, Canadian Federal Economic Statement announced several general corporate income tax rate reductions. Legislation for such rate reductions, which apply to the computation of SIFT tax, received Royal Assent on December 14, 2007. Consequently, in accounting for the Trust's future income taxes, the impact of these tax rate reductions from 31.5% to 29.5% for 2011 and 28.0% for 2012 and later have been applied in the periods that such temporary differences are expected to reverse.

The Trust has certain corporate subsidiaries in Canada and the United States which are subject to tax on their respective taxable income at the applicable legislated rates.

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and liabilities are as follows:

	2007	2006
Future income tax liabilities:		
Income properties	\$ 103,446	\$ 550
Accrued rent receivable	24,300	-
Mortgages payable	520	-
	128,266	550
Future income tax assets:		
Intangible liabilities	10,306	-
Deferred expenses	320	-
Issue costs	580	-
	11,206	-
Net future income tax liability	\$ 117,060	\$ 550

At December 31, 2007, the United States subsidiaries had accumulated net operating losses and deferred interest deductions available for carryforward for income tax purposes of approximately \$57,538. The losses expire between 2018 and 2027. The deferred interest deductions do not generally expire. The net future tax assets of these corporate subsidiaries of \$16,025 consist of net operating losses, deferred interest deductions and tax and book basis differences relating to United States income properties and accrued rent receivable against which a valuation allowance of \$16,025 has been recorded.

Income tax expense consists of the following:

	2007	2006
Income tax expense included in the determination of net earnings (loss) from continuing operations:		
Current	\$ 2,698	\$ 2,286
Future	115,635	550
	118,333	2,836
Future income taxes included in the determination of other comprehensive income (loss)	875	—
	\$ 119,208	\$ 2,836

A reconciliation of expected income taxes based upon the 2007 and 2006 statutory rates to the recorded income tax expense is as follows:

	2007	2006
Income taxes computed at the Canadian statutory rate of nil applicable to the Trust for 2007 and 2006	\$ —	\$ —
Future income taxes arising from a change in tax status with the enactment of the SIFT Rules	133,950	—
Reduction of future income taxes arising from change in:		
Tax rates	(15,500)	—
Estimate of expected reversal of temporary differences	(2,050)	—
Future income taxes applicable to Canadian corporate subsidiaries	110	550
U.S. income taxes	2,698	2,286
Future income taxes included in the determination of other comprehensive income (loss)	(875)	—
	\$ 118,333	\$ 2,836

25. Comparative figures:

Certain 2006 comparative figures have been reclassified to conform with the presentation adopted in 2007.

26. Subsequent event:

In February 2008, the Trust exercised its option and acquired the remaining interest in three retail properties in the United States for cash consideration of \$33,483.

Corporate Information

Trustees and Officers

Board of Trustees

Thomas J. Hofstedter¹
President and
Chief Executive Officer
H&R Real Estate
Investment Trust

Robert Dickson²
Managing Director
MDC Partners

Edward Gilbert^{1,2,3}
Chief Operating Officer
Firm Capital Mortgage
Investment Trust

**The Honourable
Robert P. Kaplan, P.C., Q.C.**
Business Consultant
Member of Parliament until 1993

Laurence A. Lebovic^{1,3}
Chief Executive Officer
Runnymede Development
Corporation Ltd.

Ronald C. Rutman^{2,3}
Partner
Zeifman & Company,
Chartered Accountants

Officers

Thomas J. Hofstedter
President and
Chief Executive Officer

Larry Froom
Chief Financial Officer

Nathan Uhr
Vice-President,
Acquisitions

Unitholder Information

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Downsview, Ontario, Canada
M3K 1N4
Telephone: 416 635 7520
Fax: 416 398 0040
E-mail: info@hr-reit.com
Website: www.hr-reit.com

Registrar and Transfer Agent
CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario, Canada M5C 2W9
Telephone: 416 643 5500 or
1 800 387 0825
Fax: 416 643 5501
E-mail: inquiries@cibcmellon.com
Website: www.cibcmellon.com

Auditors
KPMG LLP

Legal Counsel
Blake, Cassels and Graydon LLP

Investor Information
Analysts, Unitholders, and others
seeking financial data should
contact: Larry Froom, Chief Financial
Officer 416 635-7520

Taxability of Distributions
47% of the distributions made by the
REIT to unitholders during 2007
were tax deferred. Management
estimates that between 40% and 50%
of the distributions to be made by the
REIT in 2008 will be tax deferred.

Plan Eligibility
RRSP RRIF DPSP

Stock Exchange Listing
Units of H&R REIT are listed on
the Toronto Stock Exchange under
the trading symbol "HR.UN".

Annual Meeting of Unitholders
The date and time of the AGM will
be posted on H&R's website as soon
as it is established.

¹ Investment Committee

² Audit Committee

³ Compensation and Governance Committee

Unitholder Distribution Reinvestment Plan and Direct Unit Purchase Plan

Since January 1, 2000, H&R REIT has offered registered holders of its units resident in Canada the opportunity to participate in its Unitholder Distribution Reinvestment Plan (the “DRIP”) and Direct Unit Purchase Plan.

The DRIP allows participants to have their monthly cash contributions reinvested in additional units of H&R REIT at the weighted average price of the units on the TSE for the five trading days (the “Average Market Price”) immediately preceding the cash distribution date. In addition, participants will be entitled to receive an additional distribution equal to 3% of each cash distribution reinvested pursuant to the DRIP which will be reinvested in additional units.

The Direct Unit Purchase Plan allows participants to purchase additional units on a monthly basis at the Average Market Price subject to a minimum purchase of \$250 per month (up to a maximum of \$13,500 per year) for each participant.

For more information on the DRIP and/or the Direct Unit Purchase Plan, please contact us by email through the “Contact Us” webpage of our website or contact the plan agent: CIBC Mellon Trust Company, P.O. Box 7010, Adelaide Street Postal Station, Toronto, Ontario M5C 2W9, Tel: 416 643 5500 (or for callers outside of the 416 area code: 1 800 387 0825), Fax: 416 643 5501, Email: inquiries@cibcmellon.com.

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