



**H&R Real Estate Investment Trust and H&R Finance Trust  
2015 Annual Report  
Including Combined MD&A and Financial Statements**



**The Bow, Calgary**



**Dufferin Mall, Toronto**



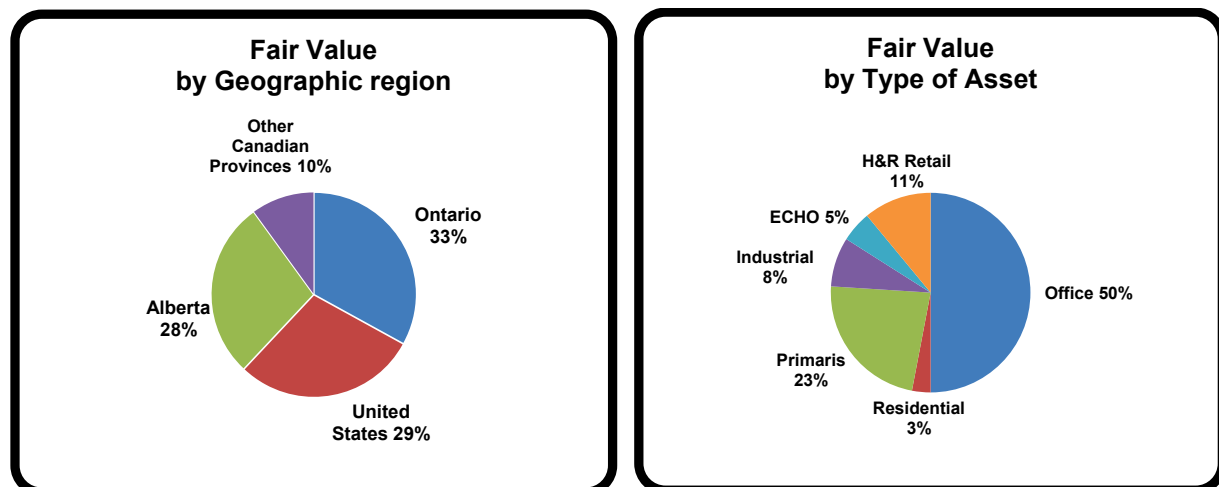
**Airport Road, Brampton**

## H&R Profile

H&R REIT is Canada's largest diversified real estate investment trust with total assets of approximately \$14.0 billion as at December 31, 2015. H&R REIT is a fully internalized real estate investment trust and has ownership interests in a North American portfolio of high quality office, retail, industrial and residential properties comprising over 47 million square feet.

H&R Finance Trust is an unincorporated investment trust, which primarily invests in notes issued by a U.S. corporation which is a subsidiary of H&R REIT. The current note receivable balance is U.S. \$220.4 million. In 2008, H&R REIT completed an internal reorganization which resulted in each issued and outstanding H&R REIT unit trading together with a unit of H&R Finance Trust as a "Stapled Unit" on the Toronto Stock Exchange.

Additional information regarding H&R REIT and H&R Finance Trust is available at [www.hr-reit.com](http://www.hr-reit.com) and on [www.sedar.com](http://www.sedar.com).



## Primary Objectives

H&R strives to achieve two primary objectives: to provide unitholders with stable and growing cash distributions generated by revenues derived from a diversified portfolio of investment properties, and to maximize the value of units through active management of H&R's assets, acquisition of additional properties, and the development of new projects which are pre-leased to creditworthy tenants. We are committed to maximizing returns to unitholders while maintaining prudent risk management and conservative use of financial leverage.

## Stability and Growth through Discipline

Since inception in 1996, H&R has executed a disciplined and proven strategy that has provided stable cash flow and adjusted funds from operations. We achieve our primary objectives and mitigate risks through long-term property leasing and financing, combined with conservative management of assets and liabilities.



## **PRESIDENT'S MESSAGE TO UNITHOLDERS**

Global markets shifted dramatically in 2015 and the Canadian economy was particularly hard hit. After several years of compounding growth, the economy slowed almost to a halt as global commodity prices plummeted.

Despite the weakness in the overall economy, significant events such as Target Corporation's ("Target") departure from Canada and the precipitous drop in oil and gas prices, we had a very solid year, reinforcing the strength of our strategy of **Stability, Security and Growth through Quality, Diversification and Scale**.

### **OFFICE**

In 2015, we completed 90 leasing transactions:

- Extended to 2031 over 900,000 square feet of office space in Calgary;
- Extended over 240,000 square feet of office space in 160 Elgin Street, Ottawa with long-term leases to high quality tenants and, we are well underway on our \$40 million redevelopment of the ground floor lobby and retail areas;
- Leased over 100,000 square feet in downtown Toronto at 145 Wellington Street West; and
- The Atrium in downtown Toronto is now over 99% leased and we are moving forward with plans for a 250,000 square foot office expansion and renovation of the entire complex.

### **RETAIL - PRIMARIS**

During 2015, the retail sector has been prominent in the news highlighted by the announcement in January 2015 that Target would be leaving Canada and closing all its stores. Approximately 90% of the gross leasable area of the nine Target stores within our portfolio is either committed to, or in active negotiations with, new retailers which will provide an enhanced shopping experience and increased value to our malls.

Throughout 2015, we have continued to pro-actively remerchandise and, where appropriate, redevelop our shopping centres. As a result, average sales per square foot continued to increase with CRU sales growing by 4.6% in 2015 to \$545 per square foot.

### **INDUSTRIAL**

As our strategic alliance with Public Sector Pension Investment Board ("PSP") gains momentum, together we successfully completed over 31 lease transactions within our industrial portfolio in 2015. Some highlights of these were:

- Extended over 738,000 square feet in Toronto to a national retailer for a term now expiring late 2025;
- Extended over 458,700 square feet in Atlanta, Georgia for a term expiring November 30, 2028 to a creditworthy tenant;
- Extended over 263,000 square feet in Eastern Canada with a strong national tenant in multiple buildings; and
- Successfully sold three non-strategic assets in Toronto.



## **RESIDENTIAL - LANTOWER**

Our residential platform is growing both strategically and opportunistically. In 2015, we acquired six apartment communities, located in Texas and Florida and as a result, our residential portfolio currently stands at 2,586 rental apartment units.

Headquartered in Dallas Texas, our Lantower residential team is led by Philippe Lapointe, Chief Operating Officer.

We continue to see opportunities in the United States multi-family sector and through our disciplined approach, we will seek to expand our portfolio further through select accretive acquisitions and development.

Construction, with our Joint Venture partner Tishman Speyer, has recently commenced on our 1,871 unit luxury rental project in Long Island City, NY. The total budget for the Project is expected to be approximately U.S. \$1.2 billion with occupancy scheduled to begin in late 2017. Construction financing for up to U.S. \$640 million has been secured through a syndicate of lenders.

## **ECHO REALTY**

In 2015, through our investment in ECHO Realty LP, we completed \$172 million of property acquisitions of grocery-anchored retail real estate in the United States, contributing to our 10.4% growth in NOI last year.

## **STRENGTH OF OUR BALANCE SHEET**

In 2015, we improved our liquidity by replacing our \$300 million secured operating line with a new \$500 million senior unsecured revolving credit facility maturing in December 2018. We also amended our senior secured credit facility for Primaris by increasing our line of credit from \$200 million to \$300 million and extending the maturity date to December 2017. As of December 31, 2015, \$433.8 million was available to be drawn under these facilities.

## **HIGHLIGHTS OF Q1 2016**

Activity levels in Q1 of 2016 remain strong:

- We completed three industrial lease renewals totaling 2,167,756 square feet for 10-year terms in Atlanta, Dallas and Chicago;
- We signed two separate 15-year Build-to-Suit leases in our Airport Road Business Park adjacent to our Unilever project, for Sleep Country Canada and Solutions 2 Go. Occupancy of both projects is expected to occur in Q1 2017, which will conclude the development of these lands;
- With the completion of the bridge linking 310 and 330 Front Street West in Downtown Toronto, TD Bank has commenced occupancy in their new premises at 310-330 Front Street;
- Completed a purchase of a fully leased single tenanted industrial building of approximately 265,000 square feet with PSP; and
- Entered into a new \$200 million senior, non-revolving, unsecured credit facility for a term of five years. We immediately drew down U.S. \$140 million and entered into an interest rate swap on U.S. \$130 million that effectively locked the interest rate at 2.56% per annum for term of five years.



## **CLOSING REMARKS**

This year marks our 20th anniversary as a publically traded REIT. We closed our IPO on December 23, 1996 with an equity raise of \$172 million, with 27 properties and an asset base of \$277 million. Since then we have grown significantly in size, quality and diversity, and have become Canada's largest diversified REIT. Today we have a market cap of approximately \$6 billion, 517 properties and total assets of close to \$15 billion dollars, and have provided our unitholders with an average annualized return of 14% throughout the years.

For me personally, the past 20 years have been a tremendously enjoyable and rewarding experience. I have truly appreciated working with our diverse and talented team who, along with the guidance and counsel of our trustees, have been responsible for our incredible success.

I would like to thank our unitholders for their trust and support throughout these past two decades, and look forward to continued success in the years to come.

A handwritten signature in black ink, appearing to read 'Tom Hofstedter', with a stylized flourish at the end.

Tom Hofstedter  
President and Chief Executive Officer  
March 29, 2016

**COMBINED MANAGEMENT'S DISCUSSION  
AND ANALYSIS OF H&R REAL ESTATE INVESTMENT  
TRUST AND H&R FINANCE TRUST**

**For the Year ended December 31, 2015**

Dated: February 17, 2016

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## SECTION I

### BASIS OF PRESENTATION

Financial data included in this combined Management's Discussion and Analysis ("MD&A") of combined results of operations and combined financial position of H&R Real Estate Investment Trust (the "REIT") and H&R Finance Trust ("Finance Trust" and together with the REIT, the "Trusts") for the year ended December 31, 2015 includes material information up to February 17, 2016. Financial data provided has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A should be read in conjunction with the combined financial statements of the Trusts and appended notes for the year ended December 31, 2015 and 2014 ("Trusts' Financial Statements"), as well as the Trusts' MD&A for the year ended December 31, 2014. All amounts in this MD&A are in thousands of Canadian dollars, except where otherwise stated. Historical results, including trends which might appear, should not be taken as indicative of future operations or results. Certain prior period items have been reclassified to conform with the voluntary accounting policy changes in the current period.

Certain properties, owned by the REIT through an investment in a joint venture or an associate are treated as equity accounted investments in the Trusts' Financial Statements. For the purposes of this MD&A, the Trusts have accounted for these equity accounted investments on a proportionately consolidated basis, and have included reconciliations to the Trusts' combined statements of comprehensive income and statements of financial position per the financial statements on pages 12, 20 and 21, respectively. The Trusts refer to these proportionately consolidated amounts as "The Trusts' interests". This non-GAAP measure is calculated as the sum of the applicable line item in the Trusts' Financial Statements in accordance with IFRS and the Trusts' proportionate share of equity accounted investments for such line item. Management views this method as relevant because it is consistent with how the REIT and its co-owners manage the net assets and assess operating performance of each of its co-owned properties. See "Non-GAAP financial measures".

On October 24, 2013, the Ontario Securities Commission (on its behalf and on behalf of the other provincial securities regulators) issued a decision which permits the REIT and Finance Trust to file one set of combined financial statements rather than separate financial statements. The Trusts' Financial Statements have been presented on a basis whereby the assets and liabilities of the REIT and Finance Trust have been combined in accordance with the accounting principles applicable to both the REIT and Finance Trust in accordance with IFRS, to reflect the financial position and results of the REIT and Finance Trust on a combined basis. This same decision permits the REIT and Finance Trust to file one combined MD&A which has been done for the year ended December 31, 2015.

### FORWARD-LOOKING DISCLAIMER

Certain information in this MD&A contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, among others, statements made or implied under the headings "Results of Operations", "Liquidity and Capital Resources", "Outlook", "Risks and Uncertainties" and "Subsequent Events" relating to the Trusts' objectives, strategies to achieve those objectives, the Trusts' beliefs, plans, estimates, projections 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", "project", "budget" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect the Trusts' current beliefs and are based on information currently available to management.

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements are not guarantees of future performance and are based on the Trusts' estimates and assumptions that are subject to risks and uncertainties, including those described below under "Risks and Uncertainties" and those discussed in the Trusts' materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results and performance of the Trusts to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include, among other things, risks related to: unit price risk; real property ownership; credit risk and tenant concentration; interest and other debt-related risk; ability to access capital markets; lease rollover risk; joint arrangements risk; currency risk; construction risks; availability of cash for distributions; environmental risk; tax risk; tax consequences to U.S. holders; dilution; unitholder liability; redemption right risk and risks relating to debentures. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that the general economy is stable; local real estate conditions are stable; interest rates are relatively stable; and equity and debt markets continue to provide access to capital. The Trusts caution that this list of factors is not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what the Trusts believe are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

Readers are also urged to examine the REIT and Finance Trust's materials filed with the Canadian securities regulatory authorities from time to time as they may contain discussions on risks and uncertainties which could cause the actual results and performance of the REIT and Finance Trust to differ materially from the forward-looking statements contained in this MD&A. Neither Finance Trust nor any of its trustees or officers,



assumes any responsibility for the completeness of the information contained in the REIT's materials filed with the Canadian securities regulatory authorities or for any failure of the REIT or its trustees or officers to disclose events or facts which may have occurred or which may affect the significance or accuracy of any such information. Neither the REIT nor any of its trustees or officers, assumes any responsibility for the completeness of the information contained in Finance Trust's materials filed with the Canadian securities regulatory authorities or for any failure of Finance Trust or its trustees or officers to disclose events or facts which may have occurred or which may affect the significance or accuracy of any such information.

All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements are made as of February 17, 2016 and the Trusts, except as required by applicable law, assume no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances.

## **NON-GAAP FINANCIAL MEASURES**

The Trusts' Financial Statements are prepared in accordance with IFRS. However, in this MD&A, a number of measures which do not have a meaning recognized under IFRS or Canadian Generally Accepted Accounting Principles ("GAAP") are presented. These measures, as well as the reasons why management believes these measures are useful to investors, are described below.

None of these non-GAAP financial measures should be construed as an alternative to financial measures calculated in accordance with GAAP. Further, the Trusts' method of calculating these supplemental non-GAAP financial measures may differ from the methods of other real estate investment trusts or other issuers, and accordingly may not be comparable.

### **The Trusts' Interests**

The Trusts apply the equity method of accounting to investments in joint ventures and associates in the Trusts' Financial Statements as prescribed under IFRS. Throughout this MD&A, any references to the "Trusts' Financial Statements" refer to amounts as reported under IFRS and any references to "The Trusts' interests" are non-GAAP measures which include amounts per the Trusts' Financial Statements plus the Trusts' proportionate share of equity accounted investments.

### **Property Operating Income, Same-Asset Property Operating Income and Adjusted Property Operating Income**

Property operating income is the rental revenue generated from the REIT's investment properties, net of the property operating expenses incurred. Management believes that this is a useful measure for investors as it provides a snapshot of how the REIT's properties are performing before financing costs and other sources of income and expenditures which are not directly related to the day-to-day operations of a property. Property operating income should not be construed as an alternative to net income calculated in accordance with IFRS. Same-asset property operating income is a non-GAAP financial measure used by the REIT which management believes is a measure useful for investors as it reports period-over-period performance for properties owned by the REIT throughout both periods. This typically excludes acquisitions, business combinations, dispositions and transfers of properties under development to investment properties. Adjusted property operating income is also a non-GAAP measure. Effective January 1, 2014, the REIT adopted IFRS Interpretations Committee 21, *Levies* ("IFRIC 21"). Adjusted property operating income excludes the impact of this change in accounting policy which relates to the timing of the liability recognition for U.S. realty taxes. Management believes that adjusted property operating income is an important non-GAAP measure as, by excluding the impact of IFRIC 21, it evenly matches U.S. realty tax expense with realty tax recoveries throughout the period.

### **Funds from Operations ("FFO")**

FFO is a non-GAAP financial measure widely used in the real estate industry as a measure of operating performance. The Trusts present their combined FFO calculations in accordance with the Real Property Association of Canada (REALpac) guidelines however, this method of calculating FFO may differ when comparing to other issuers. Management believes this to be a useful measure for investors as it adjusts for items included in net income that are not recurring including gain (loss) on sale of real estate assets, as well as non-cash items such as the fair value adjustments on investment properties. FFO should not be construed as an alternative to net income or cash flows provided by operating activities calculated in accordance with IFRS. See "Funds from Operations" for a reconciliation of property operating income to FFO and see Adjusted Funds from Operations for a reconciliation of FFO to AFFO and AFFO to Cash Provided by Operations.

### **Adjusted Funds from Operations ("AFFO")**

AFFO is also a widely used measure in the real estate industry to assess the sustainability of cash distributions. AFFO is calculated by adjusting FFO for non-cash items such as: straight-lining of contractual rent, rent amortization of tenant inducements, effective interest rate accretion and unit-based compensation. Capital and tenant expenditures incurred and capitalized in the period by the Trusts are deducted. There is no standard industry definition of AFFO, and as a result, the Trusts' calculation of combined AFFO may differ from other issuers' calculations. AFFO should

not be construed as an alternative to net income or cash provided by operations calculated in accordance with IFRS. See “Adjusted Funds from Operations” for a reconciliation of AFFO to cash provided by operations.

### **Adjusted Cash provided by Operations**

The Trusts have elected to present interest paid with cash provided by financing activities in the combined statement of cash flows per the Trusts’ Financial Statements. As a comparison to total distributions, the Trusts are of the view that cash provided by operating activities should be shown net of interest paid. Adjusted cash provided by operations is a non-GAAP measure which deducts interest paid from cash provided by operations. Management believes this to be a useful measure as it provides investors with an indication of how much cash is available for distributions.

### **Interest Coverage Ratio**

The interest coverage ratio is calculated at the Trusts’ interests by dividing the sum of adjusted property operating income plus finance income, less trust expenses (excluding unit-based compensation) by finance costs from operations (excluding effective interest rate accretion and exchangeable unit distributions). Management uses this ratio to evaluate its ability to service the interest requirements of its outstanding debt.

### **Debt to Total Assets Ratios**

The REIT’s Declaration of Trust limits the indebtedness of the REIT (subject to certain exceptions) to a maximum of 65% of the total assets of the REIT, based on the Trusts’ Financial Statements. The Trusts also present this ratio at the Trusts’ interests including for each geographic segment. Debt includes mortgages payable, the face value of debentures payable, bank indebtedness and loan payable. Management uses this ratio to determine its flexibility to incur additional debt and ensure it is in compliance with the REIT’s Declaration of Trust.

## **OVERVIEW**

The REIT is an unincorporated open-ended trust created by a declaration of trust (the “REIT Declaration of Trust”) and governed by the laws of the Province of Ontario. Unitholders are entitled to have their REIT units comprising part of the Stapled Units (as defined below) redeemed at any time on demand payable in cash (subject to monthly limits) and/or *in specie*, provided that the corresponding Finance Trust units are being contemporaneously redeemed.

Finance Trust is an unincorporated investment trust. Finance Trust was established pursuant to a Plan of Arrangement (the “Plan of Arrangement”) on October 1, 2008, as described in the REIT’s information circular dated August 20, 2008, as an open-ended limited purpose unit trust pursuant to its declaration of Trust (the “Finance Trust Declaration of Trust”). Each issued and outstanding Finance Trust unit is “stapled” to a unit of the REIT on a one-for-one basis such that Finance Trust units and the REIT units trade together as stapled units (“Stapled Units”), and such Stapled Units are listed and posted for trading on the Toronto Stock Exchange (“TSX”). Apart from provisions necessary to achieve such stapling, each REIT unit and Finance Trust unit retains its own separate identity and is separately listed (but not posted for trading) on the TSX (unless there is an event of uncoupling, in which case Finance Trust units will cease to be listed on the TSX).

The REIT has two primary objectives:

- to provide unitholders with stable and growing cash distributions, generated by the revenue it derives from a diversified portfolio of income producing real estate assets; and
- to maximize unit value through ongoing active management of the REIT’s assets, acquisition of additional properties and the development and construction of projects which are pre-leased to creditworthy tenants.

The REIT’s strategy to accomplish these two objectives is to accumulate a diversified portfolio of high quality investment properties in Canada and the United States occupied by creditworthy tenants.

The REIT’s strategy to mitigate risk is diversification both by asset class and geographic location. The REIT invests in four real estate asset classes which management views as comprising six separate operating segments. The REIT invests in office, retail, industrial and residential properties and acquires properties both in Canada and the United States. The REIT’s retail asset class is further viewed by management as being comprised of three different operating segments: (i) enclosed shopping centres and multi-tenant retail plazas throughout Canada managed by Primaris Management Inc. (“Primaris”); (ii) other retail properties throughout Canada and the United States managed by H&R REIT Management Services LP (“HRRMSLP”), a wholly-owned subsidiary of the REIT, (“H&R Retail”), and (iii) the REIT’s 33.6% interest in Echo Realty LP (“ECHO”), a privately held real estate and development company which focuses on developing and owning a core portfolio of grocery anchored shopping centres in the United States. The REIT therefore has six operating segments and management assesses the results of these operations separately.

The primary purpose of Finance Trust is to be a flow-through vehicle to allow the REIT to indirectly access the capital markets in a tax-efficient manner by indirectly borrowing money from the REIT's unitholders. Finance Trust's primary activity is to hold debt issued by H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco"), a wholly-owned U.S. subsidiary of the REIT. As at December 31, 2015, Finance Trust holds U.S. \$220.4 million of aggregate principal amount of notes payable by U.S. Holdco ("U.S. Holdco Notes") (December 31, 2014 - \$220.4 million). Subject to cash flow requirements, Finance Trust intends to distribute to its unitholders, who are also unitholders of the REIT, all of its cash flow, consisting primarily of interest paid by U.S. Holdco, less administrative and other expenses and amounts to satisfy liabilities. The U.S. Holdco Notes are eliminated in the Trusts' Financial Statements, however the related foreign exchange difference is not eliminated upon combination as it flows through net income (loss) on the Finance Trust financial statements and other comprehensive income (loss) on the REIT financial statements.

### **Mechanics of "Stapling" the Units of Finance Trust and the REIT**

Pursuant to the provisions of the Declarations of Trust for Finance Trust and the REIT at all times each REIT unit must be "stapled" to a Finance Trust unit (and each Finance Trust unit must be "stapled" to a REIT unit) unless there is an "event of uncoupling" (as described below). As part of the Plan of Arrangement, the REIT and Finance Trust entered into a support agreement (the "Support Agreement") which provided, among other things, for the co-ordination of the declaration and payment of all distributions so as to provide for simultaneous record dates and payment dates; for co-ordination so as to permit the REIT to perform its obligations pursuant to the REIT's Declaration of Trust, Unit Option Plan, Incentive Unit Plan, Distribution Reinvestment Plan and Unit Purchase Plan ("DRIP") and Unitholder Rights Plan; for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable and permit the REIT to perform its obligations arising under any security issued by the REIT (including securities convertible, exercisable or exchangeable into Stapled Units); for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable the REIT to perform its obligations or exercise its rights under its convertible debentures; and for Finance Trust to take all such actions and do all such things as are necessary or desirable to issue Finance Trust units simultaneously (or as close to simultaneously as possible) with the issue of REIT units and to otherwise ensure at all times that each holder of a particular number of REIT units holds an equal number of Finance Trust units, including participating in and cooperating with any public or private distribution of Stapled Units by, among other things, executing prospectuses or other offering documents.

In the event that the REIT issues additional REIT units, pursuant to the Support Agreement, the REIT and Finance Trust will coordinate so as to ensure that each subscriber receives both REIT units and Finance Trust units, which shall trade together as Stapled Units. Prior to such event, the REIT shall provide notice to Finance Trust to cause Finance Trust to issue and deliver the requisite number of Finance Trust units to be received by and issued to, or to the order of, each subscriber as the REIT directs. In consideration of the issuance and delivery of each such Finance Trust unit, the REIT (solely as agent for and on behalf of the purchaser) or the purchaser, as the case may be, shall pay (or arrange for the payment of) a purchase price equal to the fair market value (as determined by Finance Trust in consultation with the REIT) of each such Finance Trust unit at the time of such issuance. The remainder of the subscription price for Stapled Units shall be allocated to the issuance of REIT units by the REIT. The proceeds received by Finance Trust from any such issuance shall be invested in additional notes of the same series as the U.S. Holdco Notes or distributed to unitholders of Finance Trust.

An event of uncoupling ("Event of Uncoupling") shall occur only: (a) in the event that unitholders of the REIT vote in favour of the uncoupling of units of Finance Trust and units of the REIT such that the two securities will trade separately; or (b) at the sole discretion of the trustees, but only in the event of the bankruptcy, insolvency, winding-up or reorganization (under an applicable law relating to insolvency) of the REIT or U.S. Holdco or the taking of corporate action by the REIT or U.S. Holdco in furtherance of any such action or the admitting in writing by the REIT or U.S. Holdco of its inability to pay its debts generally as they become due. The trustees of the Trusts shall use all reasonable efforts to obtain and maintain a listing for the units of the REIT and, unless an Event of Uncoupling has occurred, the Stapled Units, on one or more stock exchanges in Canada.

### **Investment Restrictions**

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

- (a) U.S. Holdco Notes; and
- (b) temporary investments in cash, term deposits with a Canadian chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities, or money market instruments (including banker's acceptances) of, or guaranteed by, a Schedule 1 Canadian bank ("Cash Equivalents"), but only if each of the following conditions are satisfied: (a) if the Cash Equivalents have a maturity date, the trustees hold them until maturity; (b) the Cash Equivalents are required to fund expenses of Finance Trust, a redemption of units, or distributions to unitholders, in each case before the next distribution date; and (c) the purpose of holding the Cash Equivalents is to prevent funds from being non-productive, and not to take advantage of market fluctuations.

The Finance Trust Declaration of Trust provides that Finance Trust shall not make any investment, take any action or omit to take any action which would result in the units of Finance Trust not being considered units of a “mutual fund trust” for purposes of the Income Tax Act (Canada) (the “Tax Act”) or that would disqualify Finance Trust as a “fixed investment trust” under the Internal Revenue Code of 1986 as amended (the “Code”) and the applicable regulations. In order to qualify as a “fixed investment trust” under the Code, Finance Trust generally may not acquire assets other than the U.S. Holdco Notes or certain investments in cash or cash equivalents.

## SECTION II

### FINANCIAL HIGHLIGHTS

(in thousands except per unit amounts)	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012
Total assets <sup>(1)</sup>	<b>\$14,714,535</b>	\$13,941,980	\$14,107,004	\$10,171,806
Ratio of debt to total assets per the Trusts' Financial Statements <sup>(2)</sup>	<b>46.2%</b>	46.3%	49.2%	50.3%
Ratio of debt to total assets based on the Trusts' interests <sup>(2)</sup>	<b>48.4%</b>	48.1%	50.8%	51.6%
Stapled Units outstanding	<b>279,610</b>	274,773	269,975	194,677
Exchangeable units outstanding	<b>16,664</b>	16,664	17,403	5,438
	Three months ended December 31, 2015	Three months ended December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2014
Rentals from investment properties <sup>(1)</sup>	<b>\$331,331</b>	\$335,301	<b>\$1,320,287</b>	\$1,332,353
Adjusted property operating income <sup>(1)</sup>	<b>217,273</b>	218,378	<b>865,447</b>	869,722
FFO <sup>(1)</sup>	<b>142,879</b>	138,459	<b>569,943</b>	542,951
Weighted average number of basic Stapled Units for FFO	<b>294,944</b>	290,378	<b>293,026</b>	288,871
FFO per basic Stapled Unit <sup>(1)</sup>	<b>\$0.48</b>	\$0.48	<b>\$1.95</b>	\$1.88
Distributions paid per Stapled Unit	<b>\$0.34</b>	\$0.34	<b>\$1.35</b>	\$1.35
Payout ratio per Stapled Unit as a % of FFO <sup>(1)</sup>	<b>70.8%</b>	70.8%	<b>69.2%</b>	71.8%
Interest coverage ratio <sup>(1)</sup>	<b>2.82</b>	2.70	<b>2.84</b>	2.65

Property operating income is reconciled to FFO which is reconciled to AFFO. AFFO is reconciled to cash provided by operations, being the most comparable GAAP financial measure to these non-GAAP financial measures. See pages 31-35.

<sup>(1)</sup> These are non-GAAP measures and are disclosed at the Trusts' interests which include the proportionate share of equity accounted investments.

<sup>(2)</sup> This is a non-GAAP measure.

### SELECTED ANNUAL INFORMATION

The following table summarizes certain financial information of the Trusts per the Trusts' Financial Statements for the years indicated below:

(in thousands of Canadian dollars except per unit amounts)	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Rentals from investment properties	<b>\$1,188,314</b>	\$1,227,803	\$1,137,017
Finance income	<b>3,770</b>	901	2,108
Net income	<b>340,148</b>	424,655	323,635
Total comprehensive income	<b>567,609</b>	515,190	377,097
Total assets	<b>13,990,315</b>	13,368,380	13,583,027
Mortgages payable	<b>4,537,278</b>	4,318,136	4,897,726
Debentures payable	<b>1,550,769</b>	1,535,838	1,532,130
Cash distributions per unit	<b>\$1.35</b>	\$1.35	\$1.35

For a discussion of the changes between the periods noted above, please see the December 31, 2015 and 2014 MD&As of the Trusts.

**SUMMARY OF QUARTERLY RESULTS**

The following tables summarize certain financial information of the Trusts per the Trusts' financial statements for the quarters indicated below:

<b>(in thousands of Canadian dollars)</b>	<b>Q4 2015</b>	Q3 2015	Q2 2015	Q1 2015
Rentals from investment properties	<b>\$296,236</b>	\$297,055	\$295,688	\$299,335
Net income (loss) from equity accounted investments	<b>(39,017)</b>	20,884	9,493	9,481
Finance income	<b>1,225</b>	986	811	748
Net income (loss)	<b>(39,454)</b>	165,949	119,554	94,099
Total comprehensive income	<b>15,342</b>	249,903	102,995	199,369

	Q4 2014	Q3 2014	Q2 2014	Q1 2014 <sup>(1)</sup>
Rentals from investment properties	\$308,597	\$302,394	\$304,927	\$311,885
Net income from equity accounted investments	12,222	13,020	9,702	9,179
Finance income	223	250	204	224
Net income	137,708	136,452	37,348	113,147
Total comprehensive income	175,772	183,430	2,945	153,043

<sup>(1)</sup> The above amounts have been adjusted to reflect the final purchase equation of Primaris.

Fluctuations between quarterly results for all segments, excluding Primaris, are not reflective of seasonality or cyclicity but generally from new property acquisitions, dispositions, changes in foreign exchange rates and changes in the fair value of real estate assets and the fair value of liabilities. Primaris is impacted by seasonality as revenues are typically higher in the fourth quarter due to higher percentage rent and specialty leasing. Revenues may also have significant fluctuations due to recoveries from tenants for changes to property operating costs depending on when major maintenance projects are incurred.

**KEY PERFORMANCE DRIVERS**

<b>OPERATIONS<sup>(1)</sup></b>		Office	Primaris	H&R Retail	ECHO	Industrial	Residential	Total*
<i>Occupancy as at December 31</i>	<b>2015</b>	<b>98.0%</b>	<b>87.1%</b>	<b>98.7%</b>	<b>94.5%</b>	<b>99.0%</b>	<b>93.8%</b>	<b>95.9%</b>
	2014	96.5%	97.5%	98.7%	97.1%	98.7%	93.1%	97.7%
<i>Occupancy – same-asset as at December 31<sup>(2)</sup></i>	<b>2015</b>	<b>98.1%</b>	<b>87.5%</b>	<b>98.7%</b>	<b>93.8%</b>	<b>99.0%</b>	N/A	<b>96.2%</b>
	2014	96.8%	97.4%	98.7%	98.5%	98.8%	N/A	97.9%
<i>Average contractual rent per sq.ft. for the year ended December 31-Canadian properties<sup>(3)</sup></i>	<b>2015</b>	<b>\$26.20</b>	<b>\$24.32</b>	<b>\$11.52</b>	N/A	<b>\$6.31</b>	N/A	<b>\$18.80</b>
	2014	\$26.76	\$21.84	\$12.14	N/A	\$6.14	N/A	\$17.93
<i>Average contractual rent per sq.ft. for the year ended December 31-U.S. properties<sup>(4)</sup></i>	<b>2015</b>	<b>\$34.03</b>	N/A	<b>\$12.87</b>	<b>\$14.43</b>	<b>\$3.49</b>	<b>\$12.76</b>	<b>\$13.96</b>
	2014	\$33.01	N/A	\$12.79	\$13.58	\$3.48	\$10.88	\$11.78
<i>Average remaining term to maturity of leases (in years)</i>	<b>Dec 31, 2015</b>	<b>13.1</b>	<b>4.5</b>	<b>7.5</b>	<b>11.7</b>	<b>7.8</b>	N/A	<b>9.9</b>
	Dec 31, 2014	13.0	4.7	8.3	12.2	7.9	N/A	9.8
<i>Average remaining term to maturity of mortgages payable (in years)<sup>(1)</sup></i>	<b>Dec 31, 2015</b>	<b>5.9</b>	<b>5.6</b>	<b>5.0</b>	<b>11.2</b>	<b>6.9</b>	<b>9.3</b>	<b>6.2</b>
	Dec 31, 2014	6.8	4.8	5.4	10.5	6.8	9.9	6.4

\* Weighted average total.

<sup>(1)</sup> Includes properties held within equity accounted investments and investment properties classified as assets held for sale.

<sup>(2)</sup> Same-asset refers to those properties owned by the REIT for the two-year period ended December 31, 2015.

<sup>(3)</sup> All amounts are stated in Canadian dollars and exclude properties sold.

<sup>(4)</sup> All amounts are stated in U.S. dollars and exclude properties sold.

**PORTFOLIO OVERVIEW**

The geographic diversification of the Trusts' portfolio of properties and their related square footage, including those properties held in entities that the Trusts account for as equity accounted investments as at December 31, 2015, are outlined in the charts below:

Number of Properties	Canada			United States	Total
	Ontario	Alberta	Other		
Office	23	5	4	7	39
Primaris	6	18	7	-	31
H&R Retail	35	2	7	87	131
ECHO <sup>(2)</sup>	-	-	-	205	205
Industrial	39	17	31	16	103
Residential <sup>(3)</sup>	-	-	-	8	8
Total	103	42	49	323	517

Square Feet (in thousands) <sup>(1)</sup>	Canada			United States	Total
	Ontario	Alberta	Other		
Office	7,183	3,428	891	2,023	13,525
Primaris	2,401	3,944	2,411	-	8,756
H&R Retail	1,766	240	707	5,155	7,868
ECHO <sup>(2)</sup>	-	-	-	2,867	2,867
Industrial	4,712	1,763	2,123	3,188	11,786
Residential <sup>(3)</sup>	-	-	-	2,358	2,358
Total	16,062	9,375	6,132	15,591	47,160

<sup>(1)</sup> Square feet (in thousands) is based on the Trusts' interest in the net leasable area of properties.

<sup>(2)</sup> ECHO also has four development projects and six parcels of vacant land areas which are not included in the table above.

<sup>(3)</sup> The REIT's residential properties in the United States contain 2,586 apartment units.

**LEASE TO MATURITY PROFILE<sup>(1)</sup>**

The following tables below disclose the REIT's leases expiring in the next five years in Canada and the United States including equity accounted investments but excluding residential properties.

**Canadian Portfolio:**

LEASE EXPIRIES	Office		Primaris		H&R Retail		Industrial		Total	
	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry
2016	414,978	24.08	812,895	28.11	28,278	14.20	27,096	6.39	1,283,247	26.04
2017	247,054	19.40	1,037,020	22.07	77,252	11.41	203,637	6.26	1,564,963	19.07
2018	505,459	20.33	1,028,088	23.72	163,718	11.12	1,001,382	5.05	2,698,647	15.39
2019	570,385	28.96	1,209,427	16.27	1,012,116	10.47	826,553	5.88	3,618,481	14.27
2020	174,604	26.03	1,123,138	20.81	131,877	14.76	680,541	8.30	2,110,160	16.83
	1,912,480	24.12	5,210,568	21.72	1,413,241	11.07	2,739,209	6.21	11,275,498	17.02

**Lease to Maturity Profile (continued):**

**U.S. Portfolio:**

LEASE EXPIRIES	Office		H&R Retail		ECHO		Industrial		Total	
	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry
2016	-	-	14,601	22.00	67,741	12.34	659,943	3.42	742,285	4.60
2017	-	-	494,785	10.87	171,428	9.21	-	-	666,213	10.44
2018	-	-	333,692	13.07	141,122	12.58	928,280	3.65	1,403,094	6.79
2019	-	-	409,815	11.06	128,322	10.74	242,785	3.69	780,922	8.72
2020	-	-	97,239	40.41	337,554	6.39	-	-	434,793	14.00
	-	-	1,350,132	13.72	846,167	9.13	1,831,008	3.57	4,027,307	8.14

**TOP TWENTY SOURCES OF REVENUE BY TENANT<sup>(1)</sup>**

Tenant	% of rentals from investment properties <sup>(2)</sup>	Number of locations	REIT owned sq.ft. (in 000's)	Average lease term to maturity (in years) <sup>(3)</sup>	Credit Ratings (S&P)
1. Encana Corporation	11.3%	2	2,059	22.0	BBB Stable
2. Bell Canada	7.7%	26	2,542	9.6	BBB+ Stable
3. Hess Corporation	4.8%	1	845	<sup>(7)</sup>	BBB Stable
4. TransCanada PipeLines Limited	3.7%	1	931	15.3	A- Stable
5. New York City Department of Health	3.3%	1	660	14.9	AA Stable
6. Giant Eagle, Inc.	3.2%	185	1,925	13.8	Not Rated
7. Canadian Tire Corporation <sup>(4)</sup>	2.4%	21	2,625	9.3	BBB+ Stable
8. Bank of Nova Scotia	2.2%	7	478	9.0	A+ Stable
9. Telus Communications	2.2%	18	619	4.9	BBB+ Stable
10. Rona Inc.	1.8%	15	1,914	4.1	BB+ Stable
11. Corus Entertainment Inc.	1.6%	1	472	17.2	BB+ Watch Negative
12. Canadian Imperial Bank of Commerce	1.6%	9	550	8.3	A+ Stable
13. Nestle Canada and USA	1.5%	4	1,266	2.7	AA Stable
14. Ontario Realty Corporation and other Ontario Agencies <sup>(5)</sup>	1.2%	3	360	3.9	A+ Stable
15. Shell Oil Products	1.1%	17	223	6.4	AA- Negative
16. Loblaw Companies Limited <sup>(6)</sup>	0.9%	21	299	9.7	BBB Stable
17. Marsh Supermarkets	0.9%	9	548	10.9	Not Rated
18. Sobey's Inc./Safeway	0.9%	15	554	5.5	BBB- Stable
19. Public Works and Government Services, Canada	0.8%	3	283	4.2	AAA Stable
20. Royal Bank of Canada	0.8%	3	230	8.6	AA- Stable
<b>Total</b>	<b>53.9%</b>	<b>362</b>	<b>19,383</b>	<b>12.4</b>	

<sup>(1)</sup> Includes the Trusts' interests in equity accounted investments.

<sup>(2)</sup> The percentage of rentals from investment properties is based on estimated annualized gross revenue excluding straight-lining of contractual rent and capital expenditure recoveries.

<sup>(3)</sup> Average lease term to maturity is weighted based on net rent.

<sup>(4)</sup> Canadian Tire Corporation includes Canadian Tire, Mark's Work Warehouse, Sport Chek, Atmosphere and Sports Experts.

<sup>(5)</sup> Other Ontario agencies include: Legal Aid Ontario, Ontario Lottery and Gaming Corporation, Liquor Control Board of Ontario and Hydro One Networks.

<sup>(6)</sup> Loblaw Companies Limited includes Loblaws, No Frills and Shoppers Drug Mart.

<sup>(7)</sup> Due to the confidentiality under the tenant lease, the term is not disclosed.

**SUMMARY OF SIGNIFICANT 2015 ACTIVITY**

During the two-year period ended December 31, 2015, the REIT has sold properties (including partial interest in properties) for approximately \$1.4 billion while acquiring approximately \$0.6 billion of assets. Through these partial interest dispositions, the REIT has formed strategic relationships with its new partners and has significantly strengthened its balance sheet by reducing its debt to total asset ratio from 49.2% at January 1, 2014 to 46.2% at December 31, 2015. Despite the dilutive impact of these sales, the Trusts' FFO per unit grew by 3.7% in 2015 primarily due to the strengthening of the U.S. dollar.

Alberta Exposure

The REIT's properties in Alberta comprise 28.3% of the REIT's adjusted same-asset property operating income, which is further discussed by segment below.

*Alberta Office Segment:*

The Alberta properties in the REIT's office segment are listed in the table below. They collectively comprised 17.4% of the REIT's same-asset adjusted property operating income in 2015.

Address	City	Ownership Interest	Total Property Area (Sq.Ft.)	% of the REIT's adjusted same-asset property operating income in 2015	Average Remaining Lease Term (years)	Major Tenant	S&P Tenant Credit Rating
5 <sup>th</sup> Ave. at Centre St.	Calgary	100%	2,024,182	12.6%	22.2	Encana Corporation	BBB Stable
450-1st St., S.W.	Calgary	100%	931,187	3.3%	15.3	TransCanada PipeLines Limited	A- Stable
411-1st St., S.E. <sup>(1)</sup>	Calgary	50%	709,877	1.2%	2.1	Telus Communications	BBB+ Stable
2611-3rd Ave.	Calgary	50%	95,225	0.1%	10.8	Alta Link LP	A- Stable
2767-2nd Ave.	Calgary	100%	69,793	0.2%	6.0	Alta Link LP	A- Stable
<b>Total</b>			<b>3,830,264</b>	<b>17.4%</b>	<b>19.4</b>		

<sup>(1)</sup> 411-1st St., S.E. is a multi-tenanted property.

In 2016, Telus Communications will be vacating 173,456 square feet at 411-1st St., S.E. (at the REIT's 50% ownership interest). The property has recently completed a \$14.6 million renovation including a new lobby and a connection through Calgary's Plus 15 Skywalk system to the Bow.

*Alberta Industrial Segment:*

The REIT has a 50% ownership interest in 16 industrial properties in Alberta and a 100% ownership interest in one industrial property in Alberta which, collectively, comprised 1.5% of the REIT's adjusted same-asset property operating income in 2015. The REIT owns 1,762,937 square feet of industrial space in Alberta, of which 1,413,866 square feet is leased to creditworthy tenants such as Canadian Tire Corporation, Finning International Inc. and Purolator Inc. on a long-term basis. The weighted average remaining term to lease is 9.2 years and leases representing only 2,309 square feet will expire during 2016 and 2017.

*Alberta Retail Segment:*

The retail properties in Alberta comprise 9.4% of the REIT's adjusted same-asset property operating income in 2015 and continue to show strong sales performance with average store sales (excluding anchor tenants) at \$563 per square foot for the rolling 12 months ended December 31, 2015 compared to the entire Primaris portfolio average at \$534 per square foot. The weighted average remaining term to lease is 4.5 years.

Target Update

Primaris has an interest in nine malls where Target Canada Co. ("Target") was a tenant: a 50% interest in four of these malls and a 100% interest in the other five malls. Three of the leases are guaranteed by Target Corporation, the U.S. parent of Target, of which two of these three properties are held in a joint venture. Primaris's claims in respect of the Target leases are being handled through the *Companies' Creditors Arrangement Act* (Canada). The potential settlement has not been accrued for in the Trusts' Financial Statements. These nine locations totalled 831,688 square feet at the REIT's ownership interest. The Target stores were well positioned in these malls and were leased at an average net rent of \$5.58 per square foot providing an opportunity to subdivide the premises and remerchandise at higher rents. It is currently expected that once the space has been subdivided there will be approximately 709,000 square feet of leasable area at the REIT's ownership interest. Primaris has entered into new leases for 63,883 square feet and leases are in process for a further 367,804 square feet at the REIT's ownership interest. Primaris is also in active negotiations with potential tenants on a combined 199,653 square feet at the REIT's ownership interest. The REIT expects most of these leases will be binding, subject to development permits, by the end of Q1 2016 with occupancy occurring between the summer of 2016 and the end of 2017. The cost of subdividing and re-leasing the premises is expected to be approximately \$109.0 million at the REIT's ownership interest. At



December 31, 2015, occupancy in the Primaris segment was 87.1%. Excluding the Target space that has been returned to Primaris, occupancy would have been 96.3% compared to 97.5% at December 31, 2014. As at December 31, 2015, the Target stores have not been transferred to properties under development and no expenses have been capitalized for accounting purposes.

#### Industrial Segment

Following the sale to an affiliate of the Public Sector Pension Investment Board (“PSP”) and affiliates of Crestpoint Real Estate Investments Ltd. (“Crestpoint”) (collectively, “CrestPSP”) of a 50% interest in 84 Canadian industrial properties on December 22, 2014 (“Tranche 1”), the REIT sold a 49.5% interest in 16 U.S. properties to CrestPSP for a selling price of approximately U.S. \$150.5 million on March 24, 2015. CrestPSP assumed mortgages of approximately U.S. \$56.2 million and received a mark-to-market adjustment on the assumed mortgages of approximately U.S. \$3.5 million. The REIT provided CrestPSP with a vendor take-back mortgage of approximately U.S. \$10.1 million. Equity accounting has been applied to this joint venture arrangement for the U.S. properties. In addition, on March 24, 2015, the REIT sold a 50% interest in one Canadian industrial property to CrestPSP for approximately \$51.5 million and provided CrestPSP with a vendor take-back mortgage of approximately \$23.2 million (collectively, this one Canadian property and the 16 U.S. properties are referred to as “Tranche 2”). The REIT plans to build on this strategic alliance with PSP and Crestpoint by expanding on this new industrial platform through acquisitions. The REIT has leases comprising 687,039 square feet expiring in 2016 and expects most of these leases to be renewed by the end of Q1 2016.

#### Lantower Residential

In accordance with the REIT’s strategy of diversification both by asset class and geography, the REIT is continuing to expand into residential rental units in Texas and Florida under the branding of “Lantower Residential”. During the year ended December 31, 2015, Lantower Residential acquired six residential properties in Texas and Florida comprising 1,890 units for U.S. \$260.4 million at an average expected capitalization rate of 5.4%. At the date of each respective acquisition, average occupancy for these six properties was 94.3% and average monthly rent was U.S. \$1,086 per unit. Including these acquisitions, Lantower Residential has a portfolio of 2,586 rental units.

Construction commenced on the development of 1,871 rental units in Long Island City, NY (“LIC Project”), in which the REIT has a 50% interest and Tishman Speyer is the operating partner. The total budget at the 100% ownership level is expected to be approximately U.S. \$1.2 billion with occupancy scheduled to begin in late 2017. Construction financing for up to U.S. \$640 million has been secured through a syndicate of lenders co-led by two U.S. banks. As a condition to the financings, the REIT will have to contribute a further U.S. \$64.4 million to the project which will increase its total investment to U.S. \$260.7 million. Trade contracts for approximately 73% of total hard costs have been awarded.

#### Office Segment:

During 2015, the REIT entered into new leases and/or renewed expiring leases totalling approximately 1.8 million square feet. Major tenants of these leases include TransCanada PipeLines Limited, TD Bank, Gowlings, Ontario Realty Corporation and Public Works and Government Services, Canada.

#### ECHO Segment

The REIT has a 33.6% ownership interest in ECHO. In July 2015, ECHO purchased a grocery anchored portfolio consisting of eight properties located in the Southeastern United States totalling 546,462 square feet (REIT’s share – 183,461 square feet) for a total purchase price of U.S. \$124.8 million (REIT’s share – U.S. \$41.9 million).

#### H&R Retail Segment

In September 2015, the REIT sold its 100% interest in a 314,033 square foot retail property located in Richmond, B.C., for \$103.0 million at a capitalization rate of 6.0%. Upon closing, the REIT repaid the mortgage on the property of \$47.3 million which had an interest rate of 5.1%. This segment only has a remainder of 42,879 square feet of leases expiring in 2016.

#### Debt Highlights

##### Debentures:

During the year ended December 31, 2015, the REIT issued: (i) U.S. \$125.0 million Series J Senior Debentures maturing in February 2018 bearing interest at a rate equal to the 3 month London Interbank Offered Rate plus 108 basis points and (ii) \$200 million Series K Senior Debentures maturing in March 2019 bearing interest at a rate equal to the 3 month Canadian Dealer Offered Rate plus 143 basis points. During the year ended December 31, 2015, the REIT repaid: (i) \$115.0 million Series A Senior Debentures which matured in February 2015 and had an interest rate of 5.2% and (ii) \$235.0 million Series H Senior Debentures which matured in October 2015 and had an interest rate of 2.94%.

**Mortgages:**

The current weighted average interest rate on existing mortgages is 4.6% with an average term to maturity of 6.2 years. During the year ended December 31, 2015, the REIT (excluding ECHO) secured 14 mortgages totalling \$446.5 million at a weighted average interest rate of 3.6% for an average term of 10.3 years and repaid 15 mortgages upon maturity totalling \$248.8 million which had a weighted average interest rate of 5.3%.

**Unencumbered and Adjusted Unencumbered Pool:**

As at December 31, 2015, the REIT (excluding ECHO) had 85 unencumbered properties with a fair value of approximately \$2.1 billion. In addition, the REIT had 40 properties valued at approximately \$1.4 billion which are encumbered with mortgages totaling \$247.4 million. In this pool of assets, the average loan to value is 17.9%, the minimum loan to value is 5.2%, and the maximum loan to value is 29.7%.

**Operating Lines of Credit:**

In December 2015, the REIT increased its liquidity by replacing its \$300.0 million secured operating line with a new \$500.0 million senior unsecured revolving credit facility with a syndicate of lenders which will mature in December 2018. The REIT also amended Primaris's senior secured credit facility by increasing the line from \$200.0 million to \$300.0 million and extending the maturity date to December 2017.

## SECTION III

## FINANCIAL POSITION

The following is a reconciliation of the Trusts' combined statement of financial position as presented in the Trusts' Financial Statements to a proportionate share basis which is used by management to provide commentary on the Trusts' changes in assets, liabilities and owner's equity throughout this MD&A:

(in thousands of Canadian dollars)	December 31, 2015			December 31, 2014		
	Amounts per the Trusts' Financial Statements	Equity accounted investments	The Trusts' interests	Amounts per the Trusts' Financial Statements	Equity accounted investments	The Trusts' interests
<b>Assets</b>						
Real estate assets						
Investment properties	\$12,576,075	\$1,512,361	\$14,088,436	\$12,116,983	\$1,140,757	\$13,257,740
Properties under development	97,504	226,494	323,998	105,006	106,347	211,353
	12,673,579	1,738,855	14,412,434	12,221,989	1,247,104	13,469,093
Equity accounted investments	1,117,786	(1,117,786)	-	703,019	(703,019)	-
Mortgages receivable	103,353	-	103,353	79,922	-	79,922
Assets classified as held for sale	3,000	-	3,000	296,992	-	296,992
Other assets	54,310	53,200	107,510	42,703	14,372	57,075
Cash and cash equivalents	38,287	49,951	88,238	23,755	15,143	38,898
	\$13,990,315	\$724,220	\$14,714,535	\$13,368,380	\$573,600	\$13,941,980
<b>Liabilities and Unitholders' Equity</b>						
Liabilities						
Mortgages payable	\$4,537,278	\$572,669	\$5,109,947	\$4,318,136	\$472,535	\$4,790,671
Debentures payable	1,550,769	-	1,550,769	1,535,838	-	1,535,838
Exchangeable units	334,110	-	334,110	362,105	-	362,105
Deferred tax liability	189,658	-	189,658	129,864	-	129,864
Liabilities classified as held for sale	-	-	-	66,179	-	66,179
Loan payable	55,717	-	55,717	147,608	-	147,608
Bank indebtedness	321,033	90,058	411,091	123,863	54,729	178,592
Accounts payable and accrued liabilities	176,830	40,884	217,714	157,119	37,246	194,365
Non-controlling interest	-	20,609	20,609	-	9,090	9,090
	7,165,395	724,220	7,889,615	6,840,712	573,600	7,414,312
Unitholders' equity	6,824,920	-	6,824,920	6,527,668	-	6,527,668
	\$13,990,315	\$724,220	\$14,714,535	\$13,368,380	\$573,600	\$13,941,980

**ASSETS**

**Investment Properties:**

**2015 Acquisitions:**

Property	Year Built	Segment	Date Acquired	Square Feet	Cash Purchase Price (\$ Millions)	Anchor/Major Tenants	Average Remaining Lease Term (years)
8401 Memorial Lane, Plano, TX	2008	Residential	Feb 10, 2015	362,976	\$65.8	N/A	N/A
12932 Mallory Circle, Orlando, FL	2004	Residential	Apr 15, 2015	351,052	61.0	N/A	N/A
12101 Fountainbrook Blvd., Orlando, FL	2000	Residential	Apr 21, 2015	379,600	65.5	N/A	N/A
105 Purcellville Gateway Dr., Purcellville, VA <sup>(1)</sup>	2012	ECHO	May 15, 2015	29,708	15.5	Harris Teeter	12.3
5920 Carolina Beach Rd., Wilmington, NC <sup>(1)</sup>	2007	ECHO	July 15, 2015	25,558	5.5	Harris Teeter	7.7
2800 Artic Ave., Virginia Beach, VA <sup>(1)</sup>	1998	ECHO	July 7, 2015	16,844	4.6	Harris Teeter	15.2
2012 S. Croatan Hwy., Kill Devil Hills, NC <sup>(1)</sup>	2006	ECHO	July 7, 2015	17,985	3.1	Harris Teeter	17.2
118 Argus Lane, Mooresville, NC <sup>(1)</sup>	2007	ECHO	July 15, 2015	26,798	7.4	Harris Teeter	6.8
5119 Washington Rd., Evans, GA <sup>(1)</sup>	2009	ECHO	July 15, 2015	27,813	9.1	Publix	9.4
5810 Highland Shoppes Dr., Charlotte, NC <sup>(1)</sup>	2000	ECHO	July 15, 2015	22,331	6.9	Harris Teeter	4.0
6990 Pendleton Pike, Indianapolis, IN <sup>(1)</sup>	-	ECHO-Land	July 17, 2015	-	0.5	-	-
SEC Rockville Rd. & Country Club Rd., Indianapolis, IN <sup>(1)</sup>	-	ECHO-Land	July 17, 2015	-	0.5	-	-
1251 N. Toledo Blade Blvd., North Port FL <sup>(1)</sup>	2007	ECHO	July 28, 2015	24,108	8.7	Publix	8.8
2338 E. Irlo Bronson Memorial Hwy., Kissimmee, FL <sup>(1)</sup>	2012	ECHO	July 28, 2015	22,024	8.7	Publix	11.2
10383 E. US Hwy 40, Plainfield, IN <sup>(1)</sup>	-	ECHO-Land	Aug 26, 2015	-	0.8	-	-
4927 East 146 <sup>th</sup> St., Carmel, IN <sup>(1)</sup>	-	ECHO-Land	Sept 28, 2015	-	0.6	-	-
1801 Warner Ranch Rd., Round Rock, TX	2001	Residential	Oct 8, 2015	337,838	61.5	N/A	N/A
7756 Reynolds Rd., Mentor, OH <sup>(1)</sup>	-	ECHO-Development	Oct 19, 2015	-	1.0	-	-
3351 Center Rd., Brunswick, OH <sup>(1)</sup>	-	ECHO-Development	Oct 23, 2015	2,056	0.6	-	-
325 Murray Farm Rd., Fairview, TX	2008	Residential	Oct 28, 2015	278,146	57.4	N/A	N/A
125 & 175 Fountain Cr., Fairview, TX	2008	Residential	Oct 28, 2015	104,908	19.1	N/A	N/A
<b>Total</b>				<b>2,029,745</b>	<b>\$403.8</b>		

<sup>(1)</sup> Square feet and cash purchase price are based on the REIT's interests.

**2014 Acquisitions:**

Property/Acquisition	Year Built	Segment	Date Acquired	Square Feet	Cash Purchase Price (\$ Millions)	Anchor/Major Tenants	Average Remaining Lease Term (years) <sup>(1)</sup>
3621 Dufferin St., Toronto, ON	-	Office	Feb 6, 2014	<sup>(2)</sup>	\$14.3	N/A	N/A
12975 Collier Blvd., Naples, FL	2009	H&R Retail	Feb 19, 2014	65,941	15.3	Publix	11.6
Long Island City, NY Development	-	Residential-Development	June 16, 2014	-	70.3 <sup>(3)</sup>	N/A	N/A
Kildonan Place, Winnipeg, MB	1980/2013	Primaris	Sep 17, 2014	228,261 <sup>(3)</sup>	69.7 <sup>(3)</sup>	Target, Sears	4.7
12510 South Green Dr., Houston, TX	1984	Residential	Nov 25, 2014	323,568	31.5	N/A	N/A
12601 South Green Dr., Houston, TX	1984	Residential	Nov 25, 2014	219,948	18.7	N/A	N/A
<b>Total</b>				<b>837,718</b>	<b>219.8</b>		

<sup>(1)</sup> Average remaining lease term is based on net rent at the time of acquisition.

<sup>(2)</sup> Approximately 4.2 acres of land adjacent to an office property was purchased.

<sup>(3)</sup> Square footage and cash purchase price are based on the REIT's interests.

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**2015 Dispositions:**

Property	Segment	Date Sold	Square Feet	Gross Proceeds (\$ Millions)	Ownership Interest Sold
1400 Church St., Pickering, ON	Industrial	Jan 29, 2015	716,261	\$70.2	100%
2800 Skymark Ave., Mississauga, ON	Office	Q1 and Q2 2015	11,098	5.3	100%
Industrial Portfolio - Tranche 2 <sup>(1)</sup>	Industrial	Mar 24, 2015	3,497,440	239.6	49.5%-50%
6315 Kenway Dr., Mississauga, ON <sup>(1)</sup>	Industrial	April 13, 2015	34,339	3.7	50%
75 Graham Rd., Cuyahoga Falls, OH <sup>(1)</sup>	ECHO	April 17, 2015	25,048	1.3	33.6%
1 Kenview Blvd., Brampton, ON	Office	May 28, 2015	74,338	6.3	100%
44285 Ice Rink Plaza, Ashburn, VA	H&R Retail	June 25, 2015	13,815	10.5	100%
46651 Algonkian Pkwy., Sterling, VA	H&R Retail	June 25, 2015	16,838	12.3	100%
4527 Losee Rd., Las Vegas, NV	Industrial	June 26, 2015	50,659	5.5	100%
17887 South Park Ctr., Strongsville, OH <sup>(1)</sup>	ECHO	July 7, 2015	24,742	1.8	33.6%
14111-14300 Entertainment Blvd. & 14140 Triangle Rd., Richmond, BC	H&R Retail	Sept 1, 2015	314,033	103.0	100%
360 Spinnaker Way, Vaughan, ON <sup>(1)</sup>	Industrial	Oct 9, 2015	31,429	5.3	75%
5635 South Ave., Youngstown, OH <sup>(1)</sup>	ECHO	Oct 16, 2015	24,387	0.2	33.6%
7900 Airport Rd., Brampton, ON <sup>(2)</sup>	Development	Dec 3, 2015	-	10.3	100%
11 Kenview Blvd., Brampton, ON <sup>(1)</sup>	Industrial	Dec 8, 2015	72,118	5.9	50%
<b>Total</b>			<b>4,906,545</b>	<b>\$481.2</b>	

<sup>(1)</sup> Square feet and gross proceeds are based on the ownership interest disposed.

<sup>(2)</sup> Part of Block 2, Plan 43M-1939, designated as Parts 9-11, Plan 43R-35791 which consisted of approximately 11.8 acres of land.

**2014 Dispositions:**

Property	Segment	Date Sold	Square Feet	Gross Proceeds (\$ Millions)	Ownership Interest Sold
1618 Station St., Vancouver, BC	Office	Mar 17, 2014	73,197	\$30.5	100%
2780-2800 Skymark Ave., Mississauga, ON	Office	Q2 and Q3 2014	27,280	4.1	100%
Regent Mall, Fredericton, NB <sup>(1)</sup>	Primaris	May 15, 2014	249,655	102.5	50%
McAllister Place, Saint John, NB <sup>(1)</sup>	Primaris	May 15, 2014	246,546	70.0	50%
115 Belfield Rd., Toronto, ON	Industrial	May 27, 2014	47,990	3.4	100%
Grant Park Shopping Centre, Winnipeg, MB <sup>(1)</sup>	Primaris	June 13, 2014	198,961	46.5	50%
2928-16 <sup>th</sup> St., N.E., Calgary, AB	Industrial	June 25, 2014	163,280	29.3	100%
3620-32 <sup>nd</sup> St., N.E., Calgary, AB	Industrial	June 25, 2014	65,120	10.1	100%
3777 Kingsway St., Burnaby, BC <sup>(1)</sup>	Office	June 30, 2014	343,085	86.5	50%
50 Cambridge St., Worcester, MA	H&R Retail	July 18, 2014	69,020	17.1	100%
1628 Station St., Vancouver, BC	Office	July 28, 2014	-( <sup>2</sup> )	4.5	100%
200 Chisholm Dr., Milton, ON	Industrial	Sept 24, 2014	91,828	7.3	100%
417 Blue Ridge St., Blairsville, GA	H&R Retail	Sept 30, 2014	36,524	6.3	100%
420 Market St., Dayton, TN	H&R Retail	Sept 30, 2014	45,983	6.0	100%
6951 Lee Hwy., Chattanooga, TN	H&R Retail	Sept 30, 2014	48,261	10.1	100%
819 W. Carolina Ave., Hartsville, SC	H&R Retail	Sept 30, 2014	32,998	10.6	100%
4248-14 <sup>th</sup> Ave., Markham, ON	Industrial	Dec 3, 2014	32,708	4.6	100%
Industrial Portfolio - Tranche 1 <sup>(1)</sup>	Industrial	Dec 22, 2014	6,171,907	508.3	50%
<b>Total</b>			<b>7,944,343</b>	<b>\$957.7</b>	

<sup>(1)</sup> Square feet and gross proceeds are based on the ownership interest disposed.

<sup>(2)</sup> Approximately 1.25 acres of land adjacent to 1618 Station St. in Vancouver, BC was sold.

**Investment Properties by Segment and Region:**

The following tables below disclose the fair values of the Trusts' interests in investment properties by operating and geographic segment, excluding assets held for sale:

<b>Segment (millions)</b>	<b>Fair Value December 31, 2015<sup>(1)</sup></b>	<b>Fair Value December 31, 2014<sup>(1)</sup></b>
Office	<b>\$7,043</b>	\$6,885
Primaris	<b>3,205</b>	3,227
H&R Retail	<b>1,621</b>	1,547
ECHO	<b>734</b>	528
Industrial	<b>1,062</b>	1,019
Residential	<b>423</b>	52
<b>Total portfolio</b>	<b>\$14,088</b>	\$13,258

<sup>(1)</sup> Please refer to note 3 of the Trusts' Financial Statements for the assumptions and methods used in measuring the fair value of the portfolio.

<b>Region (millions)</b>	<b>Fair Value December 31, 2015<sup>(1)</sup></b>	<b>Fair Value December 31, 2014<sup>(1)</sup></b>
Ontario	<b>\$4,649</b>	\$4,591
Alberta	<b>3,916</b>	4,120
Other	<b>1,432</b>	1,499
Canada	<b>9,997</b>	10,210
United States	<b>4,091</b>	3,048
<b>Total portfolio</b>	<b>\$14,088</b>	\$13,258

<sup>(1)</sup> Please refer to note 3 of the Trusts' Financial Statements for the assumptions and methods used in measuring the fair value of the portfolio.

The Trusts have utilized the following weighted average overall capitalization rates in estimating the fair value of the investment properties:

<b>December 31, 2015</b>							
<b>Weighted Average Overall Capitalization Rates</b>	Office	Primaris	H&R Retail	ECHO	Industrial	Residential	Total
Canada	<b>6.11%</b>	<b>5.56%</b>	<b>6.76%</b>	-	<b>6.79%</b>	-	<b>6.02%</b>
United States	<b>6.34%</b>	-	<b>7.36%</b>	<b>6.86%</b>	<b>6.84%</b>	<b>5.82%</b>	<b>6.68%</b>

<b>December 31, 2014</b>							
<b>Weighted Average Overall Capitalization Rates</b>	Office	Primaris	H&R Retail	ECHO	Industrial	Residential	Total
Canada	5.96%	5.60%	6.57%	-	6.96%	-	5.97%
United States	6.14%	-	7.29%	7.00%	7.05%	5.90%	6.74%

The weighted average capitalization rates as at December 31, 2015 are calculated based on stabilized property operating income for the three months ended December 31, 2015 (December 31, 2014 - based on the three months ended December 31, 2014).

### ***Properties under Development***

#### Long Island City Project

In June 2014, the REIT purchased a 50% interest in the LIC Project. Tishman Speyer, a U.S. real estate company, is the developer and manager of the project. The parcel is zoned for 1.3 million square feet of mixed-used development, potentially accommodating up to approximately 1,871 residential rental units and approximately 15,000 square feet of retail space. The site is located adjacent to the REIT's 2 Gotham Center office property. Construction commenced in Q1 2015 with occupancy expected to begin in late 2017. The REIT's share of the total land cost was U.S. \$55.6 million. The total project cost of all phases at the 100% level is expected to be approximately U.S. \$1.2 billion. As at December 31, 2015, the REIT's investment in the LIC Project was U.S. \$196.3 million, of which U.S. \$150.4 million was included in properties under development. Construction financing for up to U.S. \$640.0 million has been secured through a syndicate of lenders co-led by two U.S. banks. The REIT has U.S. \$64.4 million in remaining capital contributions prior to construction financing commencing in 2016. Trade contracts for approximately 73% of total hard costs have been awarded.

#### ECHO

During the year ended December 31, 2015, there were 11 ECHO properties transferred from properties under development to investment properties. The REIT's share of square footage was 51,406 and the value transferred was \$22.5 million.

### ***Mortgages Receivable***

Mortgages receivable increased by \$23.5 million from \$79.9 million as at December 31, 2014 to \$103.4 million as at December 31, 2015 primarily due to the REIT granting mortgages receivable of approximately \$37.1 million as part of the sale of Tranche 2 of the Industrial Portfolio and a mortgage receivable of approximately \$26.5 million relating to a development project in Dallas, TX. This was offset by the repayment of mortgages receivable of \$40.1 million.

### ***Assets and Liabilities Classified as Held for Sale***

As at December 31, 2015, a 50% interest in one industrial property with a fair value of \$3.0 million was classified as held for sale.

As at December 31, 2014, the REIT held a 49.5% ownership interest in 16 industrial properties, a 50% ownership interest in one industrial property and a 100% ownership interest in one industrial property as held for sale. The total fair value of these properties was \$297.0 million with mortgages payable of \$66.0 million as at December 31, 2014.

### ***Other Assets***

Other assets increased by \$50.4 million from \$57.1 million as at December 31, 2014 to \$107.5 million as at December 31, 2015 primarily due to the following: (i) an increase in prepaid expenses relating to the development of the Long Island City Project of \$35.3 million; (ii) an increase in restricted cash of \$7.5 million, and (iii) an increase of accounts receivable of \$3.3 million.

## LIABILITIES AND UNITHOLDERS' EQUITY

The REIT's Declaration of Trust limits the indebtedness of the REIT (subject to certain exceptions) to a maximum of 65% of the total assets of the REIT. All ratios and amounts in the table below are non-GAAP measures.

	December 31, 2015	December 31, 2014
Debt to total assets per the Trusts' Financial Statements	46.2%	46.3%
Debt to total assets based on the Trusts' Interests	48.4%	48.1%
Non-recourse mortgages as a percentage of total mortgages	55.6%	53.8%
Ratio of mortgages to fair market value of encumbered Canadian properties	41.3%	41.3%
Ratio of mortgages to fair market value of encumbered U.S. properties	48.9%	53.5%
Unencumbered assets <sup>(1)</sup> (in thousands of Canadian dollars)	<b>\$2,063,794</b>	\$1,657,865
Interest coverage ratio	<b>2.84:1</b>	2.65:1
Weighted average interest rate of outstanding debt <sup>(2)</sup>	<b>4.4%</b>	4.7%
Weighted average term to maturity of outstanding debt (in years) <sup>(2)</sup>	<b>5.3</b>	5.7

<sup>(1)</sup> Excludes ECHO.

<sup>(2)</sup> Outstanding debt includes mortgages and the face value of debentures payable.

### ***Mortgages Payable***

The following table shows the change in mortgages payable from January 1, 2015 to December 31, 2015:

***(in thousands of Canadian dollars)***

Opening balance - January 1, 2015	\$4,790,671
Principal repayments	(178,594)
Mortgages repaid	(262,694)
New mortgages	484,608
Effective interest rate accretion on mortgages	(7,046)
Foreign exchange difference	283,002
<b>Closing balance – December 31, 2015</b>	<b>\$5,109,947</b>



The following table below shows the Trusts' 5-year mortgage maturity profile as at December 31, 2015:

<b>MORTGAGES PAYABLE</b>	Periodic Amortized Principal (\$000's)	Principal on Maturity (\$000's)	Total Principal (\$000's)	% of Total Principal	Weighted Average Interest Rate on Maturity
2016	\$178,206	\$316,285	\$494,491	9.7%	5.4%
2017	176,401	407,507	583,908	11.5%	4.7%
2018	174,932	120,381	295,313	5.8%	5.4%
2019	183,013	314,762	497,775	9.8%	3.5%
2020	162,017	417,060	579,077	11.3%	4.5%
Thereafter			2,645,769	51.9%	
			5,096,333	100%	
Financing costs and mark-to-market adjustments arising on acquisitions <sup>(1)</sup>			13,614		
<b>Total</b>			<b>\$5,109,947</b>		

<sup>(1)</sup> Mark-to-market adjustment represents the difference between the actual mortgages assumed on property acquisitions and the fair value of the mortgages at the date of purchase and is recognized in finance cost over the life of the applicable mortgage using the effective interest rate method. Financing costs are deducted from the Trusts' mortgages payable balances and are recognized in finance costs over the life of the applicable mortgage.

The mortgages outstanding as at December 31, 2015 bear interest at a weighted average rate of 4.6% (December 31, 2014 - 4.7%) and mature between 2016 and 2040. The weighted average term to maturity of the Trusts' mortgages is 6.2 years (December 31, 2014 - 6.4 years). For a further discussion of liquidity please see "Funding of Future Commitments". For a further discussion of interest rate risk, please see "Risks and Uncertainties".

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

### **Debentures Payable**

Debentures payable increased by \$15.0 million from \$1,535.8 million as at December 31, 2014 to \$1,550.8 million as at December 31, 2015 primarily due to the issuance of the U.S. \$125.0 million Series J Senior Debentures in February 2015 and the \$200.0 million Series K Senior Debentures in July 2015. This was offset by the following: (i) the repayment upon maturity of the \$115.0 million Series A Senior Debentures in February 2015 and the \$235.0 million Series H Senior Debentures in October 2015, and (ii) the decrease in fair value of Convertible Debentures.

### **Exchangeable Units**

Certain of the REIT's subsidiaries have issued exchangeable units which are puttable instruments where the REIT has a contractual obligation to issue Stapled Units to participating vendors upon redemption. These puttable instruments are classified as a liability under IFRS and are measured at fair value through net income. Holders of the exchangeable units are entitled to receive distributions on a per unit amount equal to a per Stapled Unit amount provided to holders of Stapled Units.

The following number of exchangeable units are issued and outstanding:

	Number of Exchangeable Units	Quoted Price of Stapled Units	Amounts per the Trusts' Financial Statements (\$000's)
<b>As at December 31, 2015</b>	<b>16,663,816</b>	<b>\$20.05</b>	<b>\$334,110</b>
As at December 31, 2014	16,663,816	\$21.73	\$362,105

A subsidiary of the REIT holds 0.4 million Stapled Units to mirror these exchangeable units. Therefore, when these exchangeable units are exchanged for Stapled Units, the number of outstanding Stapled Units will only increase by 16.2 million. These 0.4 million exchangeable units have been excluded from the weighting of exchangeable units used to calculate FFO and AFFO per unit amounts as they are already included in the total Stapled Units outstanding.

**Deferred Tax Liability**

The REIT has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	December 31, 2015	December 31, 2014
<b>Deferred tax assets:</b>		
Net operating losses and deferred interest deductions	\$84.9	\$95.4
Accounts payable and accrued liabilities	2.1	2.1
Derivative instruments	-	0.1
Other assets	0.9	0.2
	<b>87.9</b>	<b>97.8</b>
<b>Deferred liabilities:</b>		
Investment properties	254.2	218.4
Equity accounted investments	23.4	9.3
	<b>277.6</b>	<b>227.7</b>
Deferred tax liability	<b>(\$189.7)</b>	<b>(\$129.9)</b>

The deferred tax liability relating to the investment properties is derived on the basis that the US. Investment properties will be sold at their current fair value. The tax liability will only be realized upon an actual disposition.

**Loan Payable**

The loan payable decreased by \$91.9 million from \$147.6 million as at December 31, 2014 to \$55.7 million as at December 31, 2015 as the REIT repaid the first of two installments of the loan payable to ECHO in February 2015 and in July 2015, the REIT repaid an additional U.S. \$35.0 million towards the final remaining installment. Since the REIT has a 33.6% interest in ECHO, 33.6% of the contractual loan payable amount has been eliminated upon consolidation of the Trusts' Financial Statements. In February 2016, the REIT repaid the remainder of the loan payable to ECHO for a total cash payment of U.S. \$60.8 million. The amount presented on the Trusts' combined statements of financial position as at December 31, 2015 represents the loan payable amount net of the REIT's interest in the equity accounted investment in ECHO.

**Unitholders' Equity**

Unitholders' equity increased by \$297.2 million from \$6,527.7 million as at December 31, 2014 to \$6,824.9 million as at December 31, 2015. The increase is primarily due to net income, other comprehensive income and the issuance of units under the DRIP, all of which was partially offset by distributions paid to unitholders during the same period.

Other comprehensive income consists of the unrealized gain on translation of U.S. denominated foreign operations and the transfer of realized losses on cash flow hedges to net income.

**Normal Course Issuer Bid**

On June 4, 2015, the Trusts received approval from the TSX for the renewal of its normal course issuer bid ("NCIB"), allowing the Trusts to purchase for cancellation up to a maximum of 5.0 million Stapled Units on the open market until the earlier of June 8, 2016 or the date on which the Trusts have purchased the maximum number of Stapled Units permitted under the NCIB. During the year ended December 31, 2015, the Trusts purchased and cancelled 179,400 Stapled Units at a weighted average price of \$21.94 per unit, for a total cost of approximately \$3.9 million. During the year ended December 31, 2014, under a previous NCIB, the Trusts purchased and cancelled 67,300 Stapled Units at a weighted average price of \$21.58 per unit, for a total cost of approximately \$1.5 million.

## RESULTS OF OPERATIONS

Three months ended December 31

(in thousands of Canadian dollars)	2015			2014		
	Amounts per the Trusts' Financial Statements	Equity accounted investments	The Trusts' interests	Amounts per the Trusts' Financial Statements	Equity accounted investments	The Trusts' interests
Property operating income:						
Rentals from investment properties	\$296,236	\$35,095	\$331,331	\$308,597	\$26,704	\$335,301
Property operating costs	(94,134)	(9,638)	(103,772)	(100,336)	(9,386)	(109,722)
	202,102	25,457	227,559	208,261	17,318	225,579
Net income (loss) from equity accounted investments	(39,017)	39,413	396	12,222	(11,847)	375
Finance costs:						
Finance income	1,225	162	1,387	223	60	283
Finance cost - operations	(74,202)	(6,960)	(81,162)	(79,247)	(5,283)	(84,530)
Gain (loss) on change in fair value	11,803	(186)	11,617	5,178	-	5,178
	(61,174)	(6,984)	(68,158)	(73,846)	(5,223)	(79,069)
Trust expenses	(2,581)	(848)	(3,429)	(3,587)	219	(3,368)
Fair value adjustment on real estate assets	(148,086)	(57,023)	(205,109)	10,134	(473)	9,661
Gain (loss) on sale of real estate assets	1,665	(16)	1,649	(12,557)	5	(12,552)
Gain on foreign exchange	11,212	-	11,212	9,011	-	9,011
Net income (loss) before income taxes	(35,879)	(1)	(35,880)	149,638	(1)	149,637
Income tax expense	(3,575)	146	(3,429)	(11,930)	(14)	(11,944)
Net income (loss) attributable to the Trusts' unitholders	(39,454)	145	(39,309)	137,708	(15)	137,693
Non-controlling interest	-	(145)	(145)	-	15	15
Net income (loss)	(39,454)	-	(39,454)	137,708	-	137,708
Other comprehensive income:						
Unrealized gain on translation of U.S. denominated foreign operations	54,788	-	54,788	37,990	-	37,990
Transfer of realized loss on cash flow hedges to net income	8	-	8	74	-	74
	54,796	-	54,796	38,064	-	38,064
Total comprehensive income all attributable to unitholders	\$15,342	\$ -	\$15,342	\$175,772	\$ -	\$175,772

The decrease in net income (loss) before income taxes for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014 is primarily due to the fair value adjustment on real estate assets. The large adjustment to fair value on real estate assets was primarily due to a decrease in the fair value of properties in Alberta by \$190.8 million in Q4 2015.

## RESULTS OF OPERATIONS

Year ended December 31

(in thousands of Canadian dollars)	2015			2014		
	Amounts per the Trusts' Financial Statements	Equity accounted investments	The Trusts' interests	Amounts per the Trusts' Financial Statements	Equity accounted investments	The Trusts' interests
Property operating income:						
Rentals from investment properties	\$1,188,314	\$131,973	\$1,320,287	\$1,227,803	\$104,550	\$1,332,353
Property operating costs	(414,801)	(40,039)	(454,840)	(424,527)	(38,104)	(462,631)
	773,513	91,934	865,447	803,276	66,446	869,722
Net income from equity accounted investments	841	(288)	553	44,123	(43,673)	450
Finance costs:						
Finance income	3,770	447	4,217	901	184	1,085
Finance cost - operations	(295,010)	(24,863)	(319,873)	(323,955)	(19,956)	(343,911)
Gain (loss) on change in fair value	36,240	(1,122)	35,118	(8,029)	-	(8,029)
	(255,000)	(25,538)	(280,538)	(331,083)	(19,772)	(350,855)
Trust expenses	(9,327)	(1,123)	(10,450)	(11,091)	(169)	(11,260)
Fair value adjustment on real estate assets	(178,868)	(61,763)	(240,631)	(42,523)	(2,424)	(44,947)
Gain (loss) on sale of real estate assets	(5,428)	(2,832)	(8,260)	(16,025)	583	(15,442)
Gain on foreign exchange	49,375	-	49,375	22,602	-	22,602
Net income before income taxes	375,106	390	375,496	469,279	991	470,270
Income tax expense	(34,958)	(114)	(35,072)	(44,624)	(148)	(44,772)
Net income attributable to the Trusts' unitholders	340,148	276	340,424	424,655	843	425,498
Non-controlling interest	-	(276)	(276)	-	(843)	(843)
Net income	340,148	-	340,148	424,655	-	424,655
Other comprehensive income:						
Unrealized gain on translation of U.S. denominated foreign operations	227,430	-	227,430	90,140	-	90,140
Transfer of realized loss on cash flow hedges to net income	31	-	31	395	-	395
	227,461	-	227,461	90,535	-	90,535
Total comprehensive income all attributable to unitholders	\$567,609	\$ -	\$567,609	\$515,190	\$ -	\$515,190

The decrease in net income before income taxes for the year ended December 31, 2015 as compared to the year ended December 31, 2014 is primarily due to the fair value adjustment on real estate assets offset by the gain (loss) on change in fair value, the gain on foreign exchange and a decrease in finance costs - operations. The large adjustment to fair value on real estate assets was primarily due to a decrease in the fair values of properties in Alberta by \$176.6 million.

**Net Income (Loss), FFO and AFFO from Equity Accounted Investments<sup>(1)</sup>**

<b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	<b>2015</b>	2014	Change	<b>2015</b>	2014	Change
Rentals from investment properties	<b>\$35,095</b>	\$26,704	\$8,391	<b>\$131,973</b>	\$104,550	\$27,423
Property operating costs	<b>(9,638)</b>	(9,386)	(252)	<b>(40,039)</b>	(38,104)	(1,935)
Net income from equity accounted investments	<b>396</b>	375	21	<b>553</b>	450	103
Finance income	<b>162</b>	60	102	<b>447</b>	184	263
Finance costs - operations	<b>(6,960)</b>	(5,283)	(1,677)	<b>(24,863)</b>	(19,956)	(4,907)
Loss on change in fair value	<b>(186)</b>	-	(186)	<b>(1,122)</b>	-	(1,122)
Trust expenses	<b>(848)</b>	219	(1,067)	<b>(1,123)</b>	(169)	(954)
Fair value adjustment on real estate assets	<b>(57,023)</b>	(473)	(56,550)	<b>(61,763)</b>	(2,424)	(59,339)
Gain (loss) on sale of real estate assets	<b>(16)</b>	5	(21)	<b>(2,832)</b>	583	(3,415)
Income tax expense	<b>146</b>	(14)	160	<b>(114)</b>	(148)	34
Non-controlling interest	<b>(145)</b>	15	(160)	<b>(276)</b>	(843)	567
<b>Net income from equity accounted investments</b>	<b>(39,017)</b>	12,222	(51,239)	<b>841</b>	44,123	(43,282)
Realty taxes accounted for under IFRIC 21	<b>(1,152)</b>	(253)	(899)	-	-	-
Loss on change in fair value	<b>186</b>	-	186	<b>1,122</b>	-	1,122
Fair value adjustment on real estate assets	<b>57,023</b>	473	56,550	<b>61,763</b>	2,424	59,339
(Gain) loss on sale of real estate assets	<b>16</b>	(5)	21	<b>2,832</b>	(583)	3,415
Notional interest capitalization <sup>(2)</sup>	<b>2,697</b>	-	2,697	<b>8,317</b>	-	8,317
<b>FFO from equity accounted investments</b>	<b>19,753</b>	12,437	7,316	<b>74,875</b>	45,964	28,911
Straight-lining of contractual rent	<b>(189)</b>	38	(227)	<b>(1,054)</b>	(730)	(324)
Rent amortization of tenant inducements	<b>333</b>	267	66	<b>1,228</b>	1,026	202
Effective interest rate accretion	<b>(210)</b>	(290)	80	<b>(1,016)</b>	(1,352)	336
Unit-based compensation	-	(301)	301	-	-	-
Capital expenditures	<b>(1,124)</b>	30	(1,154)	<b>(10,470)</b>	(3,461)	(7,009)
Tenant expenditures	<b>(837)</b>	(273)	(564)	<b>(2,161)</b>	(1,690)	(471)
<b>AFFO from equity accounted investments</b>	<b>\$17,726</b>	\$11,908	\$5,818	<b>\$61,402</b>	\$39,757	\$21,645

<sup>(1)</sup> These amounts are at the Trusts' proportionate ownership share held through their equity accounted investments.

<sup>(2)</sup> Represents an adjustment to add general or indirect interest incurred in respect of properties under development held in and through equity accounted investments.

FFO from equity accounted investments for the three months and year ended December 31, 2015 compared to the three months and year ended December 31, 2014, increased by \$7.3 million and \$28.9 million primarily due to the following: (i) the REIT disposing of a 49.5% interest in 16 industrial properties in the U.S. in March 2015 with the remaining 50.5% interest being accounted for as a joint venture in 2015; (ii) ECHO acquiring and completing the development of multiple properties throughout 2014 and 2015; (iii) strengthening of the U.S. dollar compared to the Canadian dollar; and (iv) notional interest capitalization. ECHO reports its financial results to the REIT one month in arrears due to time constraints on its reporting. The above amounts for the three months ended December 31, 2015 and 2014 include ECHO's financial information from September 1, to November 30 of the respective years. The above amounts for the years ended December 31, 2015 and 2014 include ECHO's financial information from December 1, 2014 to November 30, 2015, and from December 1, 2013 to November 30, 2014, respectively. In December 2015, ECHO secured new mortgages on two properties for approximately \$3.9 million (REIT's share). The REIT is not aware of any other significant transactions that ECHO was a party to in December 2015.

**PROPERTY OPERATING INCOME**

Property operating income consists of rentals from investment properties (“rentals”) less property operating costs. Rentals include all amounts earned from tenants related to lease agreements, including basic rent, parking income, operating costs and realty tax recoveries. Property operating costs primarily consist of realty taxes, maintenance and utilities. Maintenance includes costs relating to items such as cleaning, interior and exterior building repairs and maintenance, elevator, HVAC, security and wages and benefits. Adjusted property operating income adjusts property operating income to exclude realty taxes accounted for under IFRIC 21. “Same-asset” refers to those properties owned by the REIT for the 2-year period ended December 31, 2015. “Transactions” refers to property operating income earned related to properties acquired, disposed of and transferred from properties under development to investment properties.

(in thousands of Canadian dollars)	Three months ended December 31, 2015			Three months ended December 31, 2014		
	Same-Asset	Transactions	Trusts’ interests	Same-Asset	Transactions	Trusts’ interests
Rentals	\$312,876	\$16,808	\$329,684	\$303,886	\$26,797	\$330,683
Percentage rent	1,303	39	1,342	1,224	-	1,224
Straight-lining of contractual rent	205	100	305	3,129	265	3,394
Total rentals	314,384	16,947	331,331	308,239	27,062	335,301
Property operating costs	(98,301)	(5,471)	(103,772)	(102,523)	(7,199)	(109,722)
Property operating income	216,083	11,476	227,559	205,716	19,863	225,579
Realty taxes accounted for under IFRIC 21	(9,142)	(1,144)	(10,286)	(6,672)	(529)	(7,201)
Adjusted property operating income	\$206,941	\$10,332	\$217,273	\$199,044	\$19,334	\$218,378

Adjusted same-asset property operating income increased by \$7.9 million or 4.0% for the three months ended December 31, 2015 compared to the three months ended December 31, 2014 primarily due to the strengthening of the U.S. dollar compared to the Canadian dollar.

Adjusted property operating income earned from Transactions decreased by \$9.0 million for the three months ended December 31, 2015 compared to the three months ended December 31, 2014 primarily due to the disposition of an interest in numerous properties throughout the last two years. The total fair market value of all investment properties sold during 2014 and 2015 was approximately \$1.4 billion.

(in thousands of Canadian dollars)	Year ended December 31, 2015			Year ended December 31, 2014		
	Same-Asset	Transactions	Trusts’ interests	Same-Asset	Transactions	Trusts’ interests
Rentals	\$1,236,755	\$63,016	\$1,299,771	\$1,196,270	\$116,221	\$1,312,491
Percentage rent	3,539	100	3,639	2,900	55	2,955
Straight-lining of contractual rent	16,265	612	16,877	16,263	644	16,907
Total rentals	1,256,559	63,728	1,320,287	1,215,433	116,920	1,332,353
Property operating costs	(433,570)	(21,270)	(454,840)	(427,357)	(35,274)	(462,631)
Property operating income	822,989	42,458	865,447	788,076	81,646	869,722
Realty taxes accounted for under IFRIC 21	-	-	-	-	-	-
Adjusted property operating income	\$822,989	\$42,458	\$865,447	\$788,076	\$81,646	\$869,722

Adjusted same-asset property operating income increased by \$34.9 million or 4.4% for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily due to the strengthening of the U.S. dollar compared to the Canadian dollar.

Adjusted property operating income earned from Transactions decreased by \$39.2 million for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily due to the disposition of an interest in numerous properties throughout the last two years. The total fair market value of all investment properties sold during 2014 and 2015 was approximately \$1.4 billion.

Included in adjusted same-asset property operating income are the following items which although they occur regularly, can be a source of significant variances between different periods:

(in thousands of Canadian dollars)	Three Months ended December 31			Year ended December 31		
	2015	2014	Change	2015	2014	Change
Additional capital expenditure recoveries net of capital expenditures	\$6,898	\$2,662	\$4,236	\$17,489	\$10,485	\$7,004
Adjustments to straight-lining of contractual rent	(3,910)	-	(3,910)	(1,684)	-	(1,684)
Sundry income <sup>(1)</sup>	320	(193)	513	5,303	2,060	3,243
Effect on same-asset property operating income	\$3,308	\$2,469	\$839	\$21,108	\$12,545	\$8,563

<sup>(1)</sup> Sundry income includes lease termination payments and other one-time items.

Additional recoveries net of capital expenditures vary from period to period as many of the REIT's properties are single-tenant buildings with triple net leases, which allows for certain items to be recovered from tenants even if the cost of the work is capitalized to investment properties. Sundry income typically includes one-time, non-recurring items such as lease termination payments.

Refer to the "Segmented Information" section of this MD&A for further details on property operating income.

## SEGMENTED INFORMATION

### Geographic Segments:

The Trusts have two geographic segments: Canada and the United States. Property operations for both Canada and the United States share the same investment and operating policies as described above in the "Operating Segments" section of this MD&A. The Trusts have provided additional disclosure for Ontario and Alberta but does not view these individual provinces as separate segments.

#### Same-asset property operating income for the three months ended December 31, 2015

(in thousands of Canadian dollars)	Ontario	Alberta	Other Canadian Provinces	Total - Canada	United States	The Trusts' interests
Rentals from investment properties	\$117,105	\$91,465	\$34,881	\$243,451	\$70,933	\$314,384
Property operating costs	(48,209)	(32,966)	(13,211)	(94,386)	(3,915)	(98,301)
Same-asset property operating income	68,896	58,499	21,670	149,065	67,018	216,083
Realty taxes accounted for under IFRIC 21	-	-	-	-	(9,142)	(9,142)
Adjusted same-asset property operating income	\$68,896	\$58,499	\$21,670	\$149,065	\$57,876	\$206,941

#### Same-asset property operating income for the three months ended December 31, 2014

(in thousands of Canadian dollars)	Ontario	Alberta	Other Canadian Provinces	Total - Canada	United States	The Trusts' interests
Rentals from investment properties	\$117,495	\$92,657	\$34,920	\$245,072	\$63,167	\$308,239
Property operating costs	(49,983)	(32,633)	(13,075)	(95,691)	(6,832)	(102,523)
Same-asset property operating income	67,512	60,024	21,845	149,381	56,335	205,716
Realty taxes accounted for under IFRIC 21	-	-	-	-	(6,672)	(6,672)
Adjusted same-asset property operating income	\$67,512	\$60,024	\$21,845	\$149,381	\$49,663	\$199,044

**Same-asset property operating income for the year ended December 31, 2015**

(in thousands of Canadian dollars)	Ontario	Alberta	Other Canadian Provinces	Total - Canada	United States	The Trusts' interests
Rentals from investment properties	\$470,063	\$364,062	\$134,346	\$968,471	\$288,088	\$1,256,559
Property operating costs	(190,255)	(130,250)	(51,454)	(371,959)	(61,611)	(433,570)
Same-asset property operating income	279,808	233,812	82,892	596,512	226,477	822,989
Realty taxes accounted for under IFRIC 21	-	-	-	-	-	-
<b>Adjusted same-asset property operating income</b>	<b>\$279,808</b>	<b>\$233,812</b>	<b>\$82,892</b>	<b>\$596,512</b>	<b>\$226,477</b>	<b>\$822,989</b>

**Same-asset property operating income for the year ended December 31, 2014**

(in thousands of Canadian dollars)	Ontario	Alberta	Other Canadian Provinces	Total - Canada	United States	The Trusts' interests
Rentals from investment properties	\$470,130	\$362,427	\$136,140	\$968,697	\$246,736	\$1,215,433
Property operating costs	(193,638)	(128,918)	(51,875)	(374,431)	(52,926)	(427,357)
Same-asset property operating income	276,492	233,509	84,265	594,266	193,810	788,076
Realty taxes accounted for under IFRIC 21	-	-	-	-	-	-
<b>Adjusted same-asset property operating income</b>	<b>\$276,492</b>	<b>\$233,509</b>	<b>\$84,265</b>	<b>\$594,266</b>	<b>\$193,810</b>	<b>\$788,076</b>

Included in adjusted same-asset property operating income from Alberta for the three months and year ended December 31, 2015 is a one-time adjustment to straight-lining of contractual rent of (\$1.1 million). Excluding this adjustment, adjusted same-asset property operating income would have changed by (\$0.4 million) and \$1.4 million, respectively, for the three months and year ended December 31, 2015 compared to the respective 2014 periods.

The average exchange rate for the three months ended December 31, 2015 was Canadian \$1.34 for each U.S. \$1.00 (Q4 2014 - \$1.13). The average exchange rate for the year ended December 31, 2015 was Canadian \$1.28 for each U.S. \$1.00 (December 31, 2014 - \$1.10). Due to the fluctuation of the foreign exchange rate, the Trusts have provided the table below to disclose the United States segment in U.S. dollars.

<b>United States Same-Asset Property Operating Income</b> (in thousands of U.S. dollars)	Three months ended December 31			Year ended December 31		
	2015	2014	Change	2015	2014	Change
Rentals from investment properties	\$52,723	\$55,889	(\$3,166)	\$225,069	\$224,250	\$819
Property operating costs	(2,343)	(5,827)	3,484	(48,134)	(48,115)	(19)
Property operating income	50,380	50,062	318	176,935	176,135	800
Realty taxes accounted for under IFRIC 21	(7,255)	(6,142)	(1,113)	-	-	-
<b>Adjusted property operating income</b>	<b>\$43,125</b>	<b>\$43,920</b>	<b>(\$795)</b>	<b>\$176,935</b>	<b>\$176,135</b>	<b>\$800</b>

Included in the three months and year ended December 31, 2015 are one-time adjustments to straight-lining of contractual rent of (\$1.4 million) and (\$0.5 million), respectively. Excluding these amounts, adjusted same-asset property operating income would have increased by \$0.6 million and \$1.3 million, respectively, for the three months and year ended December 31, 2015 compared to the respective 2014 periods.

**Operating Segments:**

The REIT's strategy to mitigate risk is diversification both by asset class and geographic location. The REIT invests in four real estate asset classes which management views as comprising six separate operating segments. The REIT invests in office, retail, industrial and residential properties both in Canada and the United States. The REIT's retail asset class is further viewed by management as being comprised of three different operating segments: (i) enclosed shopping centres and multi-tenant retail plazas throughout Canada managed by Primaris; (ii) other retail properties throughout Canada and the United States managed by HRRMSLP ("H&R Retail"), and (iii) the REIT's 33.6% interest in ECHO, a privately held



real estate and development company which focuses on developing and owning a core portfolio of grocery anchored shopping centres in the United States. The Primaris segment also includes four properties that were previously included in the H&R Retail segment but are now managed by Primaris. These properties are: (i) 7500 Lundy's Lane, Niagara Falls, ON (ii) Northpointe Town Centre, Calgary, AB (iii) 3619 61<sup>st</sup> Ave. S.E., Calgary, AB and (iv) Sunridge Plaza, Calgary, AB. The REIT therefore has six operating segments and management assesses the results of these operations separately. Management measures the performance of the REIT's real estate assets on the basis of property operating income, and, specifically, same-asset property operating income which highlights period-over-period changes in rental rates, occupancy, percentage rent and sundry income. Further disclosure of segmented information by operating segment can be found in the Trusts' Financial Statements.

**Same-asset property operating income for the three months ended December 31, 2015**

<b>(in thousands of Canadian dollars)</b>	<b>Office<sup>(1)</sup></b>	<b>Primaris</b>	<b>H&amp;R Retail</b>	<b>ECHO</b>	<b>Industrial</b>	<b>Residential</b>	<b>The Trusts' interests</b>
Rentals from investment properties	\$169,271	\$76,742	\$34,008	\$11,633	\$22,730	\$ -	\$314,384
Property operating costs	(54,609)	(32,207)	(4,491)	(1,664)	(5,330)	-	(98,301)
Property operating income	114,662	44,535	29,517	9,969	17,400	-	216,083
Realty taxes accounted for under IFRIC 21	(4,601)	-	(3,407)	(554)	(580)	-	(9,142)
<b>Adjusted property operating income</b>	<b>\$110,061</b>	<b>\$44,535</b>	<b>\$26,110</b>	<b>\$9,415</b>	<b>\$16,820</b>	<b>\$ -</b>	<b>\$206,941</b>

**Same-asset property operating income for the three months ended December 31, 2014**

<b>(in thousands of Canadian dollars)</b>	<b>Office<sup>(1)</sup></b>	<b>Primaris</b>	<b>H&amp;R Retail</b>	<b>ECHO</b>	<b>Industrial</b>	<b>Residential</b>	<b>The Trusts' interests</b>
Rentals from investment properties	\$165,511	\$79,259	\$31,249	\$9,522	\$22,698	\$ -	\$308,239
Property operating costs	(59,526)	(32,029)	(4,082)	(1,422)	(5,464)	-	(102,523)
Property operating income	105,985	47,230	27,167	8,100	17,234	-	205,716
Realty taxes accounted for under IFRIC 21	(3,131)	-	(2,789)	(255)	(497)	-	(6,672)
<b>Adjusted property operating income</b>	<b>\$102,854</b>	<b>\$47,230</b>	<b>\$24,378</b>	<b>\$7,845</b>	<b>\$16,737</b>	<b>\$ -</b>	<b>\$199,044</b>

**Same-asset property operating income for the year ended December 31, 2015**

<b>(in thousands of Canadian dollars)</b>	<b>Office<sup>(1)</sup></b>	<b>Primaris</b>	<b>H&amp;R Retail</b>	<b>ECHO</b>	<b>Industrial</b>	<b>Residential</b>	<b>The Trusts' interests</b>
Rentals from investment properties	\$677,806	\$302,274	\$139,067	\$44,580	\$92,832	\$ -	\$1,256,559
Property operating costs	(241,893)	(126,610)	(32,051)	(8,760)	(24,256)	-	(433,570)
Property operating income	435,913	175,664	107,016	35,820	68,576	-	822,989
Realty taxes accounted for under IFRIC 21	-	-	-	-	-	-	-
<b>Adjusted property operating income</b>	<b>\$435,913</b>	<b>\$175,664</b>	<b>\$107,016</b>	<b>\$35,820</b>	<b>\$68,576</b>	<b>\$ -</b>	<b>\$822,989</b>

<sup>(1)</sup> Property operating income relating to corporate entities has been included in the Office segment with the exception of Primaris and ECHO which have been reported in their specific segment.

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Same-asset property operating income for the year ended December 31, 2014

(in thousands of Canadian dollars)	Office <sup>(1)</sup>	Primaris	H&R Retail	ECHO	Industrial	Residential	The Trusts' interests
Rentals from investment properties	\$658,640	\$303,687	\$124,382	\$38,455	\$90,269	\$ -	\$1,215,433
Property operating costs	(241,893)	(125,823)	(28,522)	(7,730)	(23,389)	-	(427,357)
Property operating income	416,747	177,864	95,860	30,725	66,880	-	788,076
Realty taxes accounted for under IFRIC 21	-	-	-	-	-	-	-
Adjusted property operating income	\$416,747	\$177,864	\$95,860	\$30,725	\$66,880	\$ -	\$788,076

<sup>(1)</sup> Property operating income relating to corporate entities has been included in the Office segment with the exception of Primaris and ECHO which have been reported in their specific segment.

Adjusted same-asset property operating income from the Office segment increased by \$7.2 million and \$19.2 million, respectively, for the three months and year ended December 31, 2015 compared to the respective 2014 periods primarily due to an increase of \$4.0 million and \$13.7 million as a result of the strengthening of the U.S. dollar compared to the Canadian dollar and one-time items disclosed on page 24 of this MD&A.

Adjusted same-asset property operating income from the Primaris segment decreased by \$2.7 million and \$2.2 million, respectively, for the three months and year ended December 31, 2015 compared to the respective 2014 periods primarily due to (i) a one-time adjustment to straight-lining of contractual rent of (\$1.1 million) in Q4 2015 and year ended December 31, 2015; and (ii) the disclaiming of leases by Target as a result of which rent ceased being received in Q2 2015.

Adjusted same-asset property operating income from the H&R Retail segment increased by \$1.7 million and \$11.1 million, respectively, for the three months and year ended December 31, 2015 compared to the respective 2014 periods primarily due to an increase of \$2.8 million and \$11.1 million as a result of the strengthening of the U.S. dollar compared to the Canadian dollar.

Adjusted same-asset property operating income from the ECHO segment increased by \$1.6 million and \$5.1 million, respectively, for the three months and year ended December 31, 2015 compared to the respective 2014 periods primarily due to an increase of \$1.5 million and \$5.0 million as a result of the strengthening of the U.S. dollar compared to the Canadian dollar.

Adjusted same-asset property operating income from the Industrial segment increased by \$1.7 million for the year ended December 31, 2015 compared to the respective 2014 period primarily due to an increase of \$2.1 million as a result of the strengthening of the U.S. dollar compared to the Canadian dollar.

For the 16 enclosed shopping centres within the Primaris segment, sales per square foot, on a same-tenant basis, for Commercial Retail Units (“CRU”) have increased to \$548 per square foot for the twelve months ended December 31, 2015 from \$535 in the comparative period. For the same 16 properties within the Primaris segment, all store sales increased by 1.8%. These figures only include enclosed shopping centres owned by Primaris for the entire rolling 24-month period ending December 31, 2015.

	All Store Sales (in thousands of Canadian dollars)			Same Store Sales (per square foot)		
	Rolling 12 month ended December 31			Rolling 12 month ended December 31		
	2015	2014	% Change	2015	2014	% Change
Catarauqui Town Centre	<b>\$88,194</b>	\$85,643	3.0%	<b>\$489</b>	\$460	6.3%
Dufferin Mall	<b>107,495</b>	95,799	12.2	<b>619</b>	577	7.3
Grant Park <sup>(1)</sup>	<b>26,079</b>	25,424	2.6	<b>460</b>	439	4.8
McAllister Place <sup>(1)</sup>	<b>56,498</b>	52,184	8.3	<b>500</b>	454	10.1
Medicine Hat Mall	<b>63,583</b>	61,993	2.6	<b>521</b>	526	(1.0)
Northland Village <sup>(2)</sup>	<b>32,227</b>	36,170	(10.9)	<b>518</b>	533	(2.8)
Orchard Park Shopping Centre	<b>160,020</b>	150,026	6.7	<b>639</b>	598	6.9
Park Place	<b>88,682</b>	82,731	7.2	<b>590</b>	551	7.1
Peter Pond Mall	<b>88,046</b>	99,476	(11.5)	<b>802</b>	923	(13.1)
Place d’Orleans <sup>(1)</sup>	<b>96,915</b>	96,330	0.6	<b>435</b>	425	2.4
Place du Royaume	<b>104,941</b>	106,915	(1.8)	<b>420</b>	421	(0.2)
Regent Mall <sup>(1)</sup>	<b>79,338</b>	73,641	7.7	<b>578</b>	531	8.9
Sherwood Park Mall	<b>53,696</b>	55,387	(3.1)	<b>493</b>	507	(2.8)
St. Albert <sup>(3)</sup>	<b>31,445</b>	36,223	(13.2)	<b>499</b>	509	(2.0)
Stone Road	<b>111,540</b>	107,299	4.0	<b>614</b>	589	4.2
Sunridge	<b>108,450</b>	108,528	(0.1)	<b>535</b>	531	0.8
<b>Total<sup>(4)</sup></b>	<b>\$1,297,149</b>	<b>\$1,273,769</b>	<b>1.8%</b>	<b>\$548</b>	<b>\$535</b>	<b>2.4%</b>

(1) All store sales and same-store sales have been reported as if Primaris owned 100% of Place d’Orleans, McAllister Place, Grant Park and Regent Mall for the entire rolling 12 months ended December 31, 2015 and 2014.

(2) All store sales were negatively impacted by the departure of a single tenant, a travel agency, and excluding the impact of this one tenant, the decrease in all store sales would have been (8.6%).

(3) All store sales were negatively impacted due to a CRU tenant expanding and becoming an anchor tenant in 2015. Excluding the impact of this one tenant, all store sales would have decreased by (1.5%).

(4) The total same-store sales figures have been presented on a weighted average basis.

**OTHER INCOME AND EXPENSE ITEMS**

The other income and expense items section of this MD&A provides management's commentary on the Trusts' Results of Operations for line items below net income from equity accounted investments, including finance cost – operations, gain (loss) on change in fair value, trust expenses, unit-based compensation, fair value adjustment on real estate assets, gain (loss) on sale of real estate assets, gain on foreign exchange and income taxes expense.

<b>Finance Cost - Operations</b> <b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	2015	2014	Change	2015	2014	Change
Contractual interest on mortgages payable	\$58,317	\$59,841	(\$1,524)	\$230,134	\$249,857	(\$19,723)
Contractual interest on debentures payable	15,730	17,161	(1,431)	64,715	68,077	(3,362)
Effective interest rate accretion	(804)	(1,208)	404	(5,353)	(5,656)	303
Bank interest and charges	2,295	3,111	(816)	7,881	9,803	(1,922)
Exchangeable unit distributions	5,624	5,625	(1)	22,496	23,162	(666)
	81,162	84,530	(3,368)	319,873	345,243	(25,370)
Capitalized interest	-	-	-	-	(1,332)	1,332
Finance cost - operations	\$81,162	\$84,530	(\$3,368)	\$319,873	\$343,911	(\$24,038)

The decrease in contractual interest on mortgages payable for the three months and year ended December 31, 2015 compared to the respective 2014 periods is primarily due to mortgages being assumed or discharged upon the disposal of properties and the repayment of mortgages.

The decrease in contractual interest on debentures payable of \$1.4 million and \$3.4 million for the three months and year ended December 31, 2015 compared to the respective 2014 periods is primarily due to the repayment of the Series A Senior Debentures in February 2015 and Series H Debentures in October 2015 offset by the issuance of the Series J Senior Debentures in February 2015 and Series K Senior Debentures in July 2015.

<b>Finance Cost – Gain (loss) on Change in Fair Value</b> <b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	2015	2014	Change	2015	2014	Change
Gain (loss) on fair value of convertible debentures	\$2,855	\$2,940	(\$85)	\$8,084	(\$1,559)	\$9,643
Gain (loss) on fair value of exchangeable units	8,665	2,167	6,498	27,995	(6,859)	34,854
Net gain (loss) on derivative instruments	97	71	26	(961)	389	(1,350)
Finance cost – gain (loss) on change in fair value	\$11,617	\$5,178	\$6,439	\$35,118	(\$8,029)	\$43,147

The REIT has elected to measure the outstanding convertible debentures at fair value. The REIT uses the quoted prices on the TSX to determine the fair value of each series of convertible debentures as permitted under IFRS 13, *Fair Value Measurement*. The fluctuation in fair value between each period is recorded as a gain (loss) on change in fair value.

Under IFRS, the exchangeable units are considered puttable instruments which are valued and classified as a financial liability. The gain (loss) on fair value of exchangeable units is due to the change in the exchangeable unit fair value during the respective quarter. At the end of each quarter, the fair value of each exchangeable unit is measured based on the quoted prices of the Stapled Units on the TSX. For the three months and year ended December 31, 2015, the change in fair value is based on the quoted price of Stapled Units which was \$20.05 as at December 31, 2015 (September 30, 2015 - \$20.57, December 31, 2014 - \$21.73). For the three months and year ended December 31, 2014, the change in fair value is based on the quoted price of Stapled Units which was \$21.73 as at December 31, 2014 (September 30, 2014 - \$21.86 December 31, 2013 - \$21.40).

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<b>Trust Expenses</b> <b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	2015	2014	Change	2015	2014	Change
Other expenses	\$3,560	\$2,266	\$1,294	\$11,147	\$7,411	\$3,736
Unit-based compensation - as reported under IFRS	(131)	1,102	(1,233)	(697)	3,849	(4,546)
Trust expenses	\$3,429	\$3,368	\$61	\$10,450	\$11,260	(\$810)

Other expenses are primarily comprised of salaries, professional fees, trustee fees and corporate overhead expenses. Total other expenses increased by \$1.3 million and \$3.7 million for the three months and year ended December 31, 2015 compared to the three months and year ended December 31, 2014 primarily due to an increase in salaries, professional fees and corporate expenses relating to Primaris and ECHO.

The REIT's Unit Option Plan is considered to be cash-settled under IFRS 2, *Share-based Payments* and as a result, is measured at each reporting period and settlement date at its fair value as defined by IFRS 2. The impact of the fair value adjustment to unit-based compensation is as follows:

<b>Unit-based Compensation</b> <b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Nine months ended December 31		
	2015	2014	Change	2015	2014	Change
Unit-based compensation	\$856	\$629	\$227	\$3,309	\$4,277	(\$968)
Fair value adjustment to unit-based compensation	(987)	473	(1,460)	(4,006)	(428)	(3,578)
Unit-based compensation - as reported under IFRS	(\$131)	\$1,102	(\$1,233)	(\$697)	\$3,849	(\$4,546)

Unit-based Compensation is comprised of the following two compensation plans; the Unit Option Plan and the Incentive Unit Plan. Unit-based compensation decreased by \$1.0 million for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily due to a one-time catch up adjustment of \$1.7 million in Q1 2014 relating to the calculation of how unit options vest over their three year period. At the end of each quarter, the fair value adjustment to unit-based compensation is measured based on the quoted prices of the Stapled Units on the TSX. The quoted price of Stapled Units was \$20.05 as at December 31, 2015 (September 30, 2015 - \$20.57, December 31, 2014 - \$21.73). The quoted price of Stapled Units was \$21.73 as at December 31, 2014 (September 30, 2014 - \$21.86, December 31, 2013 - \$21.40).

<b>Fair Value Adjustment on Real Estate Assets</b> <b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	2015	2014	Change	2015	2014	Change
Fair value adjustment on real estate assets	(\$205,109)	\$9,661	(\$214,770)	(\$240,631)	(\$44,947)	(\$195,684)

The REIT records its real estate assets at fair value. The changes of \$214.8 million and \$195.7 million for the three months and year ended December 31, 2015 compared to the respective 2014 periods are due to changes in the following: (i) market assumptions used in the property valuations from quarter to quarter, (ii) realty taxes accounted for under IFRIC 21, (iii) capital and tenant expenditures, (iv) redevelopment costs and (v) straight-lining of contractual rent. The fair value adjustment on real estate assets for the three months and year ended December 31, 2015 includes decreases to fair values of properties in Alberta of \$190.8 million and \$176.6 million, respectively. Refer to note 3 in the Trusts' Financial Statements for further details on the valuation of the portfolio.

<b>Gain (Loss) on Sale of Real Estate Assets</b> <b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	2015	2014	Change	2015	2014	Change
Gain (loss) on sale of real estate assets	\$1,649	(\$12,552)	\$14,201	(\$8,260)	(\$15,442)	\$7,182

The loss on sale of real estate assets for the years ended December 31, 2015 and 2014 of \$8.3 million and \$15.4 million, respectively, includes the following: (i) mark-to-market adjustments on the purchasers' assumption of mortgages of \$4.5 million and \$16.6 million, respectively, and (ii) one-time mortgage prepayment penalties of \$2.0 million to discharge two mortgages in 2015 and \$3.1 million to discharge five mortgages in 2014. Excluding these adjustments, the properties sold generated a gain (loss) on sale of (\$1.8 million) and \$4.3 million, respectively. For a list of properties sold in 2015 and 2014, please refer to the "2015 Dispositions" and "2014 Dispositions" tables in this MD&A.

<b>Gain on Foreign Exchange</b> <b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	<b>2015</b>	2014	Change	<b>2015</b>	2014	Change
Gain on foreign exchange	<b>\$11,212</b>	\$9,011	\$2,201	<b>\$49,375</b>	\$22,602	\$26,773

The amounts in the table above were recorded by Finance Trust due to the translation of the U.S. Holdco Notes into Canadian dollars. The U.S. Holdco Notes are eliminated in the Trusts' Financial Statements however, the related foreign exchange difference is not eliminated on combination as it flows through net income of Finance Trust and other comprehensive income of the REIT. This is because U.S. Holdco is a subsidiary of the REIT and forms part of its net investment in the United States. U.S. Holdco is not a subsidiary of Finance Trust. The average exchange rate for the three months ended December 31, 2015 was Canadian \$1.34 for each U.S. \$1.00 (Q4 2014 - \$1.13). The average exchange rate for the year ended December 31, 2015 was Canadian \$1.28 for each U.S. \$1.00 (December 31, 2014 - \$1.10).

<b>Income Tax Expense</b> <b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	<b>2015</b>	2014	Change	<b>2015</b>	2014	Change
Current income taxes	<b>\$283</b>	\$450	(\$167)	<b>\$2,455</b>	\$1,068	\$1,387
Deferred income taxes	<b>3,146</b>	11,494	(8,348)	<b>32,617</b>	43,704	(11,087)
Total income taxes	<b>\$3,429</b>	\$11,944	(\$8,515)	<b>\$35,072</b>	\$44,772	(\$9,700)

Current income taxes expense of \$2.5 million for the year ended December 31, 2015, includes a minimum income tax expense of \$1.1 million relating to the sale of U.S. properties sold during 2015.

The REIT 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 made payable to unitholders and deducted by the REIT for tax purposes. The REIT's current income tax expense is primarily due to U.S. state taxes.

The REIT's deferred income tax expense is recorded in respect of U.S. Holdco and arose due to taxable temporary differences between the tax and accounting bases of assets and liabilities net of the benefit of unused tax credits, deferred interest deductions and losses that are available to be carried forward to future tax years to the extent that it is probable that the unused tax credits, deferred interest deductions and losses can be realized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the assets are realized or the liabilities are settled, based on the tax laws that have been enacted or substantively enacted at the statement of financial position date. Deferred income tax relating to items recognized in equity will also be recognized in equity.

As at December 31, 2015, the REIT had net deferred tax liabilities of \$189.7 million (December 31, 2014 - \$129.9 million) primarily related to taxable temporary differences between the tax and accounting bases of U.S. investment properties.

## FUNDS FROM OPERATIONS

FFO is a recognized measure that is widely used by the real estate industry, particularly by those publicly traded entities that own and operate investment properties. FFO is a financial measure which should not be considered as an alternative to net income, cash flow from operations, or any other operating or liquidity measure prescribed under IFRS. The Trusts present FFO in accordance with the REALpac White Paper on Funds From Operations. The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the operating results of the Trusts. FFO provides an operating performance measure that when compared period over period reflects the impact on operations of trends in occupancy levels, rental rates, property operating costs, acquisition activities and finance costs, that is not immediately apparent from net income determined in accordance with IFRS.

In April 2014, REALpac revised their definition of FFO to add an adjustment for realty taxes accounted for under IFRIC 21 and an adjustment for incremental leasing costs of full-time or salaried staff.

Realty taxes accounted for under IFRIC 21:

As a result of the requirements of IFRIC 21 wherein the obligating event that gives rise to the property tax liability (where such property taxes meet the definition of a levy in IFRIC 21) does not occur over a period of time, an adjustment is made to FFO to reflect a pro-rata expense over the period of ownership.

Incremental leasing costs:

Leasing costs related to full-time or salaried staff, and related internal costs, that can be directly attributed to signed leases and that would otherwise be capitalized if incurred from external sources are added back to profit or loss in determining FFO. The purpose of this adjustment is to achieve consistency between entities that use internal leasing personnel and those that use external leasing personnel.

**FUNDS FROM OPERATIONS**

(in thousands of Canadian dollars except per unit amounts)	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
<b>Property operating income</b>	<b>\$202,102</b>	\$208,261	<b>\$773,513</b>	\$803,276
Finance income	1,225	223	3,770	901
Finance cost - operations (excluding exchangeable unit distributions)	(68,578)	(73,622)	(272,514)	(300,793)
Trust expenses (excluding the fair value adjustment to unit-based compensation)	(3,568)	(3,114)	(13,333)	(11,519)
Current income taxes expense	(429)	(436)	(2,341)	(920)
FFO from equity accounted investments (page 22)	19,753	12,437	74,875	45,964
Realty taxes accounted for under IFRIC 21	(9,134)	(6,948)	-	-
Incremental leasing costs	1,508	1,658	5,973	6,042
<b>FFO</b>	<b>\$142,879</b>	\$138,459	<b>\$569,943</b>	\$542,951
Weighted average number of Stapled Units (in thousands of Stapled Units adjusted for conversion of exchangeable Stapled Units) <sup>(1)</sup>	294,944	290,378	293,026	288,871
Diluted weighted average number of Stapled Units (in thousands of Stapled Units) for the calculation of FFO <sup>(1)(2)(3)(4)</sup>	305,442	300,865	303,651	299,464
FFO per Stapled Unit (basic – adjusted for conversion of exchangeable units)	\$0.48	\$0.48	\$1.95	\$1.88
FFO per Stapled Unit (diluted)	\$0.48	\$0.47	\$1.92	\$1.86
Distributions per Stapled Unit	\$0.34	\$0.34	\$1.35	\$1.35
Payout ratio per Stapled Unit as a % of FFO	70.8%	70.8%	69.2%	71.8%

<sup>(1)</sup> For the three months and year ended December 31, 2015, included in the weighted average and diluted weighted average number of Stapled Units are exchangeable units of 16,230,642. For the three months and year ended December 31, 2014, included in the weighted average and diluted weighted average number of Stapled Units are exchangeable units of 16,230,642 and 16,698,530, respectively.

<sup>(2)</sup> For the three months ended December 31, 2015 and 2014, 330,669 Stapled Units and 319,596 Stapled Units, respectively, are included in the determination of diluted FFO with respect to the REIT's Unit Option Plan and Incentive Unit Plan. For the years ended December 31, 2015 and 2014, 457,248 Stapled Units and 425,505 Stapled Units, respectively, are included in the determination of diluted FFO with respect to the REIT's Unit Option Plan and Incentive Unit Plan.

<sup>(3)</sup> The 2016, 2018 and 2020 convertible debentures are dilutive for the three months ended December 31, 2015 and December 31, 2014. Therefore, debenture interest of \$3.3 million and \$3.3 million, respectively, is added to FFO and 10,167,133 Stapled Units and 10,167,335 Stapled Units, respectively, are included in the diluted weighted average number of Stapled Units outstanding for these periods.

<sup>(4)</sup> The 2016, 2018 and 2020 convertible debentures are dilutive for the years ended December 31, 2015 and December 31, 2014. Therefore, debenture interest of \$13.3 million and \$13.3 million, respectively, is added to FFO and 10,167,230 Stapled Units and 10,167,523 Stapled Units, respectively, are included in the diluted weighted average number of Stapled Units outstanding for these periods.

Included in FFO are the following items which can be a source of significant variances between periods:

<b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	<b>2015</b>	2014	Change	<b>2015</b>	2014	Change
Additional capital expenditure recoveries net of capital expenditures <sup>(1)</sup>	<b>\$6,998</b>	\$2,772	\$4,226	<b>\$17,832</b>	\$11,308	\$6,524
Adjustment to straight-lining of contractual rent	<b>(3,910)</b>	-	(3,910)	<b>(1,684)</b>	-	(1,684)
Sundry income <sup>(1)(2)</sup>	<b>391</b>	(193)	584	<b>8,383</b>	2,096	6,287
Current income taxes <sup>(3)</sup>	-	-	-	<b>(1,087)</b>	-	(1,087)
	<b>\$3,479</b>	\$2,579	\$900	<b>\$23,444</b>	\$13,404	\$10,040

(1) Includes amounts relating to the Trusts' interests of real estate assets included in equity accounted investments.

(2) Sundry income includes lease termination payments and other one-time items.

(3) Minimum income tax payable relating to the sale of U.S. properties.

Excluding the above items, FFO would have been \$139.4 million for the three months ended December 31, 2015 (Q4 2014 - \$135.9 million) and \$0.47 per basic Stapled Unit (Q4 2014 - \$0.47 per basic Stapled Unit). For the year ended December 31, 2015, FFO would have been \$546.5 million (December 31, 2014 - \$529.5 million) and \$1.87 per basic Stapled Unit (December 31, 2014 - \$1.83 per basic Stapled Unit).



**ADJUSTED FUNDS FROM OPERATIONS**

In calculating AFFO, the Trusts adjust FFO for costs incurred relating to leasing and capital expenditures, straight-line rent in excess of contractual rent paid by tenants and non-cash expenses such as amortization. Capital expenditures excluded and not deducted in the calculation of AFFO relate to capital expenditures which generate a new investment stream, such as the construction of a new retail pad during property expansion or intensification, development activities or acquisition activities. AFFO is a supplemental measure that is used in the real estate industry to assess the sustainability of cash distributions.

AFFO is a financial measure not defined under IFRS. AFFO should not be considered as an alternative to net income, cash provided by operations or any other IFRS measure. There is no common industry definition or methodology for the calculation of AFFO. Furthermore, some entities present AFFO as a modified earnings measure and not as a cash measure as presented herein.

<b>(in thousands of Canadian dollars except per unit amounts)</b>	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
<b>FFO</b>	<b>\$142,879</b>	\$138,459	<b>\$569,943</b>	\$542,951
Add (deduct):				
Straight-lining of contractual rent	(116)	(3,432)	(15,823)	(16,177)
Rent amortization of tenant inducements	511	434	2,100	1,725
Effective interest rate accretion	(594)	(918)	(4,337)	(4,304)
Unit-based compensation	856	629	3,309	4,277
Capital expenditures	(15,419)	(10,410)	(41,716)	(38,206)
Tenant expenditures	(21,829)	(9,064)	(54,628)	(32,941)
Incremental leasing costs	(1,508)	(1,658)	(5,973)	(6,042)
AFFO adjustments from equity accounted investments (page 22)	(2,027)	(529)	(13,473)	(6,207)
<b>AFFO</b>	<b>\$102,753</b>	\$113,511	<b>\$439,402</b>	\$445,076
Weighted average number of Stapled Units (in thousands of Stapled Units adjusted for conversion of exchangeable Stapled Units) <sup>(1)</sup>	294,944	290,378	293,026	288,871
Diluted weighted average number of Stapled Units (in thousands of Stapled Units) for the calculation of AFFO <sup>(1)(2)(3)(4)(5)</sup>	301,202	300,865	303,651	299,464
AFFO per Stapled Unit (basic - adjusted for conversion of exchangeable units)	\$0.35	\$0.39	\$1.50	\$1.54
AFFO per Stapled Unit (diluted)	\$0.35	\$0.39	\$1.49	\$1.53

<sup>(1)</sup> For the three months and year ended December 31, 2015, included in the weighted average and diluted weighted average number of Stapled Units are exchangeable units of 16,230,642. For the three months and year ended December 31, 2015 and 2014, included in the weighted average and diluted weighted average number of Stapled Units are exchangeable units of 16,230,642 and 16,698,530 respectively.

<sup>(2)</sup> For the three months ended December 31, 2015 and 2014, 330,669 Stapled Units and 319,596 Stapled Units, respectively, are included in the determination of diluted AFFO with respect to the REIT's Unit Option Plan and Incentive Unit Plan. For the years ended December 31, 2015 and 2014, 457,248 Stapled Units and 425,505 Stapled Units, respectively, are included in the determination of diluted AFFO with respect to the REIT's Unit Option Plan and Incentive Unit Plan.

<sup>(3)</sup> The 2016 and 2018 convertible debentures are dilutive for the three months ended December 31, 2015. Therefore, debenture interest of \$1.9 million is added to AFFO and 5,926,537 Stapled Units are included in the diluted weighted average number of Stapled Units outstanding for this period.

<sup>(4)</sup> The 2016, 2018 and 2020 convertible debentures are dilutive for the three months ended December 31, 2014. Therefore, debenture interest of \$3.3 million is added to AFFO and 10,167,335 Stapled Units are included in the dilutive weighted average number of Stapled Units outstanding for this period.

<sup>(5)</sup> The 2016, 2018 and 2020 convertible debentures are dilutive for the years ended December 31, 2015 and December 31, 2014. Therefore, debenture interest of \$13.3 million and \$13.3 million, respectively, is added to AFFO and 10,167,230 Stapled Units and 10,167,523 Stapled Units, respectively, are included in the diluted weighted average number of Stapled Units outstanding for these periods.

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Included in AFFO are the following items which can be a source of significant variances between periods:

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2015	2014	Change	2015	2014	Change
Additional capital expenditure recoveries net of capital expenditures <sup>(1)</sup>	\$6,998	\$2,772	\$4,226	\$17,832	\$11,308	\$6,524
Sundry income <sup>(1)(2)</sup>	391	(193)	584	8,383	2,096	6,287
Current income taxes <sup>(3)</sup>	-	-	-	(1,087)	-	(1,087)
Capital expenditures <sup>(1)</sup>	(16,543)	(10,380)	(6,163)	(52,186)	(41,667)	(10,519)
Tenant expenditures <sup>(1)</sup>	(23,266)	(9,337)	(13,929)	(57,389)	(34,631)	(22,758)
	<b>(\$32,420)</b>	<b>(\$17,138)</b>	<b>(\$15,282)</b>	<b>(\$84,447)</b>	<b>(\$62,894)</b>	<b>(\$21,553)</b>

(1) Includes amounts relating to the Trusts' interests of real estate assets included in equity accounted investments.

(2) Sundry income includes lease termination payments and other one-time items.

(3) Minimum income tax payable relating to the sale of U.S. properties.

Excluding the above items, AFFO would have been \$135.2 million for the three months ended December 31, 2015 (Q4 2014 - \$130.6 million) and \$0.46 per basic Stapled Unit (Q4 2014 - \$0.45 per basic Stapled Unit). For the year ended December 31, 2015, AFFO would have been \$523.8 million (December 31, 2014 - \$508.0 million) and \$1.79 per basic Stapled Unit (December 31, 2014 - \$1.76 per basic Stapled Unit).

Capital expenditures were unusually high for the three months and year ended December 31, 2015 primarily due to renovation projects at the REIT's Front St. property in Toronto, ON, Scotia Plaza in Toronto, ON and 160 Elgin St., Ottawa, ON. Tenant expenditures were unusually high for the three months and year ended December 31, 2015 primarily due to costs associated with lease renewals completed in 2014 and 2015 at the REIT's Front St. property in Toronto, ON and TransCanada Tower in Calgary, AB.

The following is a reconciliation of the Trusts' AFFO to cash provided by operations.

(in thousands of Canadian dollars)	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
<b>AFFO</b>	<b>\$102,753</b>	\$113,511	<b>\$439,402</b>	\$445,076
Straight-lining of contractual rent	116	3,432	15,823	16,177
Net (income) loss from equity accounted investments	39,017	(12,222)	(841)	(44,123)
Finance cost - operations	74,202	79,247	295,010	323,955
Effective interest rate accretion	594	918	4,337	4,304
Exchangeable unit distributions	(5,624)	(5,625)	(22,496)	(23,162)
Additions to capital expenditures and tenant expenditures	37,248	19,474	96,344	71,147
Adjustments for the Trusts' interests in equity accounted investments (page 22)	(56,743)	314	(60,561)	4,366
Change in other non-cash operating items	42,615	(716)	4,524	(31,822)
<b>Cash provided by operations</b>	<b>\$234,178</b>	\$198,333	<b>\$771,542</b>	\$765,918

**LIQUIDITY AND CAPITAL RESOURCES****Cash Distributions**

In accordance with National Policy 41-201 - *Income Trusts and Other Indirect Offerings*, the Trusts are required to provide the following additional disclosure relating to cash distributions.

<b>(in thousands of Canadian dollars)</b>	<b>Three months ended December 31, 2015</b>	<b>Year ended December 31, 2015</b>	<b>Year ended December 31, 2014</b>	<b>Year ended December 31, 2013</b>
Adjusted cash provided by operations <sup>(1)</sup>	<b>\$153,112</b>	<b>\$489,850</b>	\$461,509	\$322,503
Net income (loss)	<b>(39,454)</b>	<b>340,148</b>	424,655	323,635
Total distributions <sup>(2)</sup>	<b>93,921</b>	<b>373,072</b>	366,802	331,040
Excess (shortfall) of adjusted cash provided by operations over total distributions	<b>59,191</b>	<b>116,778</b>	94,707	(8,537)
Excess (shortfall) of net income (loss) over total distributions	<b>(133,375)</b>	<b>(32,924)</b>	57,853	(7,405)

(1) Adjusted cash provided by operations is a non-GAAP measure which deducts interest paid from cash provided by operations.

(2) Total Distributions include cash distributions to unitholders and unit distributions issued under the DRIP.

Total distributions include unit distributions issued under the DRIP of \$26,102 and \$105,422, respectively, for the three months and year ended December 31, 2015 and \$85,358 and \$74,260 respectively, for the years ended December 31, 2014 and 2013 which are non-cash distributions. Distributions exceeded adjusted cash provided by operations for the year ended December 31, 2013, which did not represent an economic return of capital but rather was primarily due to unit distributions issued under the DRIP. Unit distributions issued under the DRIP result in an increase in the number of Stapled Units outstanding which may result in increased cash distributions in the future assuming a stable cash component of distributions per unit. Distributions exceeded net income (loss) for the three months and year ended December 31, 2015 and year ended December 31, 2013 which is primarily due to non-cash items. Non-cash items relating to the issuance of exchangeable units, fair value adjustments on real estate assets, gain (loss) on change in fair value, amortization, unrealized gain (loss) on foreign exchange and deferred income tax recoveries are deducted from or added to net income and have no impact on cash available to pay current distributions.

**Capital Resources**

Subject to market conditions, management expects to be able to meet all of the Trusts' ongoing obligations and to finance short-term development commitments through the general operating facilities discussed below and the Trusts' cash flow from operations. As at December 31, 2015, the Trusts are not in default or arrears on any of its obligations including interest or principal payments on debt and any debt covenant.

Excluding ECHO, the REIT has cash and cash equivalents on hand of \$82.9 million and has the following bank facilities as at December 31, 2015:

<b>Operating Facility (in thousands of Canadian Dollars)</b>	<b>Total Facility</b>	<b>Bank Indebtedness Drawn</b>	<b>Outstanding Letters of Credit</b>	<b>Available Balance</b>
H&R REIT unsecured operating facility	\$500,000	\$165,499	\$62,341	\$272,160
Primaris secured operating facility	300,000	138,020	334	161,646
H&R REIT and CrestPSP secured operating facility	15,000	14,000	-	1,000
Retail co-ownership secured operating facility	3,514	3,514	-	-
	<b>\$818,514</b>	<b>\$321,033</b>	<b>\$62,675</b>	<b>\$434,806</b>

In December 2015, construction financing for the LIC Project for up to U.S. \$640.0 million was secured through a syndicate of lenders co-led by two U.S. banks. This construction facility can only be used for the LIC Project, and the REIT is committed to contribute an additional U.S. \$64.4 million to the development prior to drawing on the facility. After these capital contributions have been made by the REIT and the funds have been spent by the Project, the construction facility will be available to fund the remaining development costs.

As at December 31, 2015, excluding ECHO, the REIT had 85 unencumbered properties, with a fair value of approximately \$2.1 billion. Also, due to the REIT's 19-year history and management's conservative strategy of securing long-term financing on individual properties, the REIT had

numerous other properties with very low loan to value ratios. As at December 31, 2015, excluding real estate assets reported in the Trusts' equity accounted investments, the REIT had 40 properties valued at approximately \$1.4 billion which are encumbered with mortgages totaling \$247.4 million. In this pool of assets, the average loan to value is 17.9% the minimum, loan to value is 5.2%, and the maximum loan to value is 29.7%.

The following is a summary of material contractual obligations of the REIT including payments due as at December 31, 2015 for the next five years and thereafter:

<b>Contractual Obligations<sup>(1)</sup></b> <b>(in thousands of Canadian dollars)</b>	Payments Due by Period				Total
	2016	2017- 2018	2019- 2020	2021 and thereafter	
Mortgages payable	\$494,491	\$879,221	\$1,076,852	\$2,645,769	\$5,096,333
Convertible Debentures	75,000	74,394	99,654	-	249,048
Senior Debentures	180,000	747,500	375,000	-	1,302,500
Bank indebtedness <sup>(2)</sup>	-	321,033	-	-	321,033
Loan Payable <sup>(3)</sup>	83,876	-	-	-	83,876
LIC Project <sup>(4)</sup>	88,837	-	-	-	88,837
Property acquisitions	7,750	-	-	-	7,750
<b>Total contractual obligations</b>	<b>\$929,954</b>	<b>\$2,022,148</b>	<b>\$1,551,506</b>	<b>\$2,645,769</b>	<b>\$7,149,377</b>

(1) The amounts in the above table are the principal amounts due under the contractual agreements.

(2) Excludes ECHO's bank indebtedness of \$90.1 million which is covered by ECHO's revolving credit facility of U.S. \$200.0 million which expires on August 8, 2017.

(3) The loan payable balance per the Trusts' Financial Statements as at December 31, 2015 was \$55.7 million which is payable to ECHO. 33.6% of the balance above has been eliminated upon consolidation of the Trusts' Financial Statements as the REIT has a 33.6% interest in ECHO, however there is a contractual obligation for the full amount.

(4) The total amount in the table above represents the REIT's remaining capital contributions prior to construction financing commencing in 2016.

DBRS Limited ("DBRS") provides credit ratings of debt securities for commercial entities. A credit rating generally provides an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments. Rating categories range from highest credit quality (generally AAA) to default payment (generally D). A credit rating is not a recommendation to buy, sell or hold securities.

DBRS has confirmed that the REIT has a credit rating of BBB (high) with a Stable trend as at December 31, 2015. This is the highest Canadian real estate industry rating achieved by only three REITs and one real estate company to date. A credit rating of BBB (high) by DBRS is generally an indication of adequate credit quality, where the capacity for payment of financial obligations is considered acceptable, however the entity may be vulnerable to future events. A credit rating of BBB or higher is an investment grade rating. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be withdrawn or revised by DBRS at any time. The credit rating is reviewed periodically by DBRS.

The REIT has no material capital or operating lease obligations.

### **Funding of Future Commitments**

The REIT believes that as at December 31, 2015, through the combined amount available under its general operating facilities of \$434.8 million and its unencumbered property pool of approximately \$2.1 billion, it has sufficient funds for future commitments.

The following summarizes the estimated loan to value ratios that will be outstanding on properties whose mortgages mature over the next five years, including investments in the Trusts' Interests of mortgages relating to equity accounted investments and mortgages classified as held for sale:

Year	Number of Properties	Mortgage Debt due on Maturity (\$000's) <sup>(1)</sup>	Weighted Average Interest Rate on Maturity	Fair Value of Investment Properties (\$000's) <sup>(1)</sup>	Loan to Value
2016	44	\$316,285	5.4%	\$636,079	50%
2017	21	407,507	4.7%	902,625	45%
2018	35	120,381	5.4%	504,682	24%
2019	29	314,762	3.5%	847,043	37%
2020	18	417,060	4.5%	1,093,656	38%
	147	\$1,575,995	4.6%	\$3,984,085	40%

<sup>(1)</sup> Converting U.S. dollars to Canadian dollars at an exchange rate of \$1.38 as at December 31, 2015.

Based on the low percentage of the projected loan to values of the maturing mortgages, the REIT is confident it will be able to refinance these mortgages upon maturity should it choose to do so.

### OFF-BALANCE SHEET ITEMS

The REIT has co-owners and partners in various projects. As a rule the REIT does not provide guarantees or indemnities for these co-owners and partners pursuant to property acquisitions because should such guarantees be provided, recourse would be available against the REIT in the event of a default of the co-owners and partners. In such case, the REIT would have a claim against the underlying real estate investment. However, in certain circumstances, subject to compliance with the REIT's Declaration of Trust and the determination by management that the fair value of the co-owners' or partners' investment is greater than the mortgages payable for which the REIT has provided guarantees, such guarantees will be provided.

At December 31, 2015, such guarantees amounted to \$269.9 million expiring in 2029 (December 31, 2014 - \$229.0 million, expiring in 2022), and no amount has been provided for in the Trusts' Financial Statements for these items. These amounts arise where the REIT has guaranteed a co-owner's share of the mortgage liability. The REIT, however, customarily guarantees or indemnifies the obligations of its nominee companies which hold separate title to each of its properties owned.

In addition, the REIT continued to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable thereunder until such debts are extinguished or the lenders agree to release the REIT's guarantee. At December 31, 2015, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk is approximately \$146.5 million, expiring between 2016 and 2020 (December 31, 2014 - \$152.2 million, expiring between 2016 and 2020). There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in the Trusts' Financial Statements.

In the normal course of operations, the REIT has issued letters of credit in connection with developments, financings, operations and acquisitions. As at December 31, 2015, the REIT has outstanding letters of credit totalling \$62.7 million (December 31, 2014 - \$55.9 million), including \$18.6 million (December 31, 2014 - \$17.8 million) which has been pledged as security for certain mortgages payable. The letters of credit are secured in the same manner as the bank indebtedness.

Under the construction facility agreement for the LIC Project, the REIT is committed to contribute an additional U.S. \$64.4 million to the project prior to drawing on the facility. These committed contributions will be included in the equity accounted investments in associates when incurred. After these capital contributions have been made by the REIT, and the funds have been spent by the project, the construction facility will be available to fund the remaining development costs.

### Related Party Transactions

Effective July 1, 2013, the REIT entered into an agreement with the former property manager of the REIT for it to provide specified services to the REIT including the cost sharing of premises, certain personnel, equipment and support systems, as well as additional services to be agreed upon from time to time. The agreement will continue until terminated by either party in accordance with the terms of the agreement. During the three months ended December 31, 2015, the REIT incurred costs of \$0.4 million (December 31, 2014 - \$0.4 million) under this agreement. During the year ended December 31, 2015, the REIT incurred costs of \$1.5 million (December 31, 2014 - \$1.5 million) under this agreement.

The REIT leases space to companies partially owned by family members of the CEO. The rental income earned for the three months ended December 31, 2015 is \$0.4 million (December 31, 2014 - \$0.4 million) and for the year ended December 31, 2015 is \$1.6 million (December 31, 2014 - \$1.5 million).

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

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Where appropriate, the REIT, including ECHO, uses forward contracts to lock-in lending rates on certain anticipated mortgages. This strategy provides certainty to the rate of interest on borrowings when the REIT is involved in transactions that may close further into the future than usual for typical transactions. At the end of each reporting period, an interest rate swap is marked-to-market, resulting in an unrealized gain or loss recorded in net income.

Where appropriate, the REIT uses forward exchange contracts to lock-in foreign exchange rates. This strategy provides certainty in the foreign exchange rates on transactions that will occur in the future.

## SECTION IV

### CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparation of the Trusts' Financial Statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period.

Management believes the policies which are subject to greater estimation and judgement are outlined below. For a detailed description of these and other accounting policies refer to notes 1 and 2 of the Trusts' Financial Statements.

#### Use of Estimates

Information about assumption and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are:

- Fair value of real estate assets;
- Fair value of financial instruments;
- Fair value of cash-settled unit-based compensation;
- Fair value of convertible debentures; and
- Deferred tax asset (liability).

#### Use of Judgements

- Business combinations

Accounting for business combinations under IFRS 3, *Business Combinations* ("IFRS 3") is only applicable if it is determined that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to the REIT. A business generally consists of inputs, processes applied to those inputs and resulting outputs that are, or will be, used to generate revenues. In the absence of meeting such criteria, a group of assets is deemed to have been acquired. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. Judgement is used by management in determining whether the acquisition of an individual property, or a group of properties, qualifies as a business combination in accordance with IFRS 3 or as an asset acquisition.

- Valuations of real estate assets

Real estate assets, which consist of investment properties and properties under development, are carried on the combined statements of financial position at fair value, as determined by either qualified external valuation professionals or by management. The valuations are based

on a number of assumptions, such as appropriate discount rates and capitalization rates and estimates of future rental income, operating expenses and capital expenditures. Valuation of real estate assets is one of the principal estimates and uncertainties of the REIT. Refer to note 3 of the Trusts' Financial Statements for further information on estimates and assumptions made in the determination of the fair value of real estate assets. Judgement is applied in determining whether certain costs are additions to the carrying value of the real estate assets, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development properties.

- Leases

The REIT's policy for property rental revenue recognition is described in note 2(f) of the December 31, 2014 Trusts' Financial Statements. The REIT makes judgements in determining whether certain leases, in particular those tenant leases with long contractual terms and long-term ground leases where the REIT is the lessor, are operating or finance leases. The REIT has determined that all of its leases are operating leases.

- Income taxes

The REIT currently qualifies as a real estate investment trust and a mutual fund trust for Canadian income tax purposes. A real estate investment trust will not be subject to the tax levied on "specified investment flow-through" ("SIFT") trusts provided it continues to meet prescribed conditions under the Tax Act, including with respect to the nature of its assets and revenue, (the "REIT Conditions") at all times throughout a taxation year. Accordingly, no provision for current or deferred income taxes has been recorded by the REIT at December 31, 2015 in respect of its Canadian entities.

The REIT will not be subject to income tax in a year to the extent that it continues to qualify as a real estate investment trust and distributes all of its taxable income to its unitholders. Income allocated to unitholders will be taxed at the unitholder level. The REIT currently distributes, and is required to distribute, all of its income to its unitholders. Accordingly, for financial statement reporting purposes, the tax deductibility of the REIT's distributions is treated as an exemption from taxation.

- Impairment of equity accounted investments

The REIT determines at each reporting date whether there is any objective evidence that the equity accounted investments are impaired. If so, the REIT calculates the amount of impairment as the difference between the recoverable amount of the equity accounted investment and its carrying value and recognizes the amount in net income.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Each of the Trust's CEO and CFO has designed, or caused to be designed under their direct supervision, the applicable Trusts' disclosure controls and procedures (as defined in National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), adopted by the Canadian Securities Administrators to provide reasonable assurance that: (i) material information relating to the applicable Trust, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared; and (ii) material information required to be disclosed in the annual filings is recorded, processed, summarized and reported on a timely basis. The Trusts' CEO and CFO have each concluded that such disclosure controls and procedures were appropriately designed and were operating effectively as at December 31, 2015. The Trusts' Financial Statements and this MD&A were reviewed and approved by the REIT's Audit Committee and the Board of Trustees prior to this publication.

Management of each Trust has reviewed its internal control over financial reporting on an annual basis. The Trusts' management, under the supervision of the CFO, has evaluated the effectiveness of internal control over financial reporting using the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission in May 2013 (2013 COSO Framework). Based on this evaluation, management has concluded that internal control over financial reporting was effective and in accordance with the criteria established in the 2013 COSO Framework as of December 31, 2015. No changes were made to the design of either Trust's internal control over financial reporting during the three month period ended December, 2015 that have materially affected, or are reasonably likely to materially affect, the Trusts' internal control over financial reporting.

Each Trust's management, including the CEO and CFO, does not expect that the applicable Trusts' 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 the Trusts have been detected. The Trusts are continually evolving and enhancing their systems of controls and procedures.

## **SECTION V**

### **RISKS AND UNCERTAINTIES**

All real estate assets 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 oversupply of space or a reduction in demand for real estate in a particular area. Management attempts to manage these risks through geographic, type of asset and tenant diversification in the REIT's portfolio. The major risk factors including detailed descriptions are outlined below and in the REIT's Annual Information Form.

#### **Real Property Ownership**

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

The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants. Distributable cash and the REIT's income would be adversely affected if one or more major tenants or a significant number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in the properties in which the REIT has an interest is not able to be leased on economically favourable lease terms. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting the REIT's investment may be incurred. Furthermore, at any time, a tenant of any of the properties in which the REIT has an interest may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available to the REIT.

Given the prominence of the oil and gas industry in the province of Alberta, the economy of this province can be significantly impacted by commodity prices. As at December 31, 2015, approximately 28.3% of the REIT's adjusted same-asset property operating income was generated from Alberta. Accordingly, any continuing decline or prolonged weakness in commodity prices, could adversely affect those tenants of the REIT that are involved in the oil and gas industry, thereby increasing the credit risk of such tenants to the REIT which in turn may adversely affect the REIT's operating results.

With respect to the Primaris portfolio, retail shopping centres have traditionally relied on there being a number of anchor tenants (department stores, discount department stores and grocery stores) in the centre, and therefore they are subject to the risk of such anchor tenants either moving out of the property or going out of business. Within the Primaris portfolio, certain of the major tenants are permitted to cease operating from their leased premises at any time at their option, however, they remain liable to pay all remaining rent in accordance with their leases. Other major tenants are permitted to cease operating from their leased premises or to terminate their leases if certain events occur. Some commercial retail unit tenants have a right to cease operating from their premises if certain major tenants cease operating from their premises. The exercise of such rights by a tenant may have a negative effect on a property. There can be no assurance that such rights will not be exercised in the future.

The ability to rent unleased space in the properties in which the REIT has an interest will be affected by many factors and costs may be incurred in making improvements or repairs to property required by a new tenant. A prolonged deterioration in economic conditions could increase and exacerbate the foregoing risks. The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the REIT's financial condition.

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

The REIT may, in the future, be exposed to a general decline of demand by tenants for space in properties. As well, certain of the leases of the properties held by the REIT have early termination provisions which, if exercised, would reduce the average lease term. However, such termination rights are generally exercisable at a cost to the tenant only and the amount of space in the REIT portfolio which could be affected is not significant. A mortgage on any one property may, from time to time, exceed the estimated current market value of the related property. The cash flow from such a property may not be sufficient to cover debt servicing for that property. The cash flow from the REIT portfolio is, however, expected by management to be sufficient to cover any cash flow shortfalls on such a property.

#### **Lease Rollover Risk**

Lease rollover risk arises from the possibility that the REIT may experience difficulty renewing leases as they expire. Management attempts to enter into long-term leases to mitigate this risk. Management attempts to mitigate the risk by having staggered lease maturities and entering into longer term leases with built-in rental escalations. The leases for 34.2% of the REIT's total commercial leasable area will expire in the next 5 years.



### **Interest and Other Debt-Related Risk**

The REIT has been able to leverage off the low interest rate environment that the Canadian and U.S. economy has experienced in recent years which has enhanced its return to unitholders. A reversal of this trend, however, may lead to the Trusts' debt being refinanced at higher rates, thereby reducing net income and cash flows which could ultimately affect the level of distributions. In order to minimize this risk, the REIT negotiates fixed rate term debt with staggered maturities on the portfolio and attempts to match average lease maturity to average debt maturity. Derivative financial instruments may be utilized by the REIT in the management of its interest rate exposure. In addition, the REIT Declaration of Trust restricts total indebtedness permitted on the portfolio.

### **Construction Risks**

It is likely that, subject to compliance with the REIT Declaration of Trust, the REIT will be involved in various development projects. The REIT's obligations in respect of properties under construction, or which are to be constructed, are subject to risks which include (i) the potential insolvency of a third party developer (where the REIT is not the developer); (ii) a third party developer's failure to use advanced funds in payment of construction costs; (iii) construction or other unforeseeable delays; (iv) cost overruns; (v) the failure of tenants to occupy and pay rent in accordance with existing lease agreements, some of which are conditional; (vi) the incurring of construction costs before ensuring rental revenues will be earned from the project; and (vii) increases in interest rates during the period of the development. Management strives to mitigate these risks where possible by entering into fixed price construction contracts with general contractors (and to the extent possible, on a bonded basis) and by attempting to obtain long-term financing as early as possible during construction.

### **Currency Risk**

The Trusts are 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 REIT's debt on these properties is also held in U.S. dollars to act as a natural hedge.

The REIT is exposed to foreign exchange fluctuations as a result of the U.S. Holdco Notes being denominated in U.S. dollars.

### **Credit Risk and Tenant Concentration**

The REIT is exposed to credit risk in the event that borrowers default on the repayment of the amounts owing to the REIT. Management mitigates this risk by ensuring adequate security has been provided in support of mortgages receivable.

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. Management has diversified the REIT's holdings so that it owns several categories of properties (office, retail, industrial and residential) 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 individually account for more than 5% of the rentals from investment properties of the REIT are Encana Corporation and Bell Canada. Both of these companies have a public debt rating that is rated with at least a BBB stable rating by a recognized rating agency.

### **Environmental Risk**

As an owner and manager of real estate assets in Canada and the United States, the REIT is subject to various laws relating to environmental matters. These laws impose a liability for the cost of removal and remediation of certain hazardous materials released or deposited on properties owned by the REIT on or adjacent properties.

In accordance with best management practices, Phase 1 environmental audits are reviewed on all properties prior to acquisition. Further investigation is conducted if Phase 1 tests indicate a potential problem. The REIT has operating policies to monitor and manage risk. In addition, the standard lease utilized requires tenants to comply with environmental laws and regulations, and restricts tenants from carrying on environmentally hazardous activities or having environmentally hazardous substances on site.

### **Joint Arrangement Risks**

The REIT has several investments in joint ventures and investments in associates. The REIT is subject to risks associated with the management and performance of these joint arrangements. Such risks include any disagreements with its partners relating to the development or operations of a property, as well as differences with respect to strategic decision making. Other risks include partners not meeting their financial or operational obligations. The REIT attempts to mitigate these risks by maintaining good working relationships with its partners, and conducting due diligence on their partners to ensure there is a similar alignment of strategy prior to creating a joint arrangement.

## **Unit Prices**

Publicly traded trust units will not necessarily trade at values determined solely by reference to the underlying value of trust assets. Accordingly, the Stapled Units may trade at a premium or a discount to the underlying value of the assets of the REIT and Finance Trust. Investors in Stapled Units will be subject to all of the risks of an investment in units of Finance Trust and of an investment in units of the REIT. See also “Forward-Looking Disclaimer”.

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

## **Availability of Cash for Distributions**

As the monthly cash distribution paid by Finance Trust fluctuates, the monthly cash distribution paid by the REIT will also fluctuate in order to result in an aggregate monthly cash distribution as previously outlined. Although the REIT intends to make distributions of its available cash to unitholders in accordance with its distribution policy, these cash distributions may be reduced or suspended. The actual amount distributed by the REIT will depend on numerous factors including monthly cash distributions paid by Finance Trust, capital market conditions, the financial performance of the properties, the REIT’s debt covenants and obligations, its working capital requirements, its future capital requirements, its development commitments and fluctuations in interest rates. Cash available to the REIT for distributions may be reduced from time to time because of items such as principal repayments on debt, tenant allowances, leasing commissions, capital expenditures or any other business needs that the trustees deem reasonable. The REIT may be required to use part of its debt capacity in order to accommodate any or all of the above items. The market value of Stapled Units may decline significantly if the REIT and/or Finance Trust suspends or reduces distributions. The REIT trustees retain the right to re-evaluate the distribution policy from time to time as they consider appropriate.

## **Ability to Access Capital Markets**

As the REIT distributes a substantial portion of its income to unitholders, the REIT may need to obtain additional capital through capital markets and the REIT’s ability to access the capital markets through equity issues and forms of secured or unsecured debt financing may affect the operations of the REIT as such financing may be available only on disadvantageous terms, if at all. If financing is not available on acceptable terms, further acquisitions or ongoing development projects may be curtailed and cash available for distributions or to fund future commitments may be adversely affected.

## **Dilution**

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

## **Unitholder Liability**

The Declarations of Trust of each of the REIT and Finance Trust provide that unitholders will have no personal liability for actions of the Trusts 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 a trust. Each Declaration of Trust of the REIT and Finance Trust further provides that this lack of unitholder liability, where possible, must be provided for in certain written instruments signed by the applicable Trust. In addition, legislation has been enacted in the Provinces of Ontario and certain other provinces that is intended to provide unitholders in those provinces with limited liability. However, there remains a risk, which the Trusts consider to be remote in the circumstances, that a unitholder could be held personally liable for a Trust’s obligations to the extent that claims are not satisfied out of the Trusts’ assets. It is intended that the Trusts’ affairs will be conducted to seek to minimize such risk wherever possible.

## **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 Trusts is subject to limitations. In certain circumstances, the REIT’s Declaration of Trust provides for the *in specie* distributions of notes of H&R Portfolio LP Trust in the event of redemption of units of the REIT that are part of the Stapled Units. The notes which may be distributed *in specie* to unitholders in connection with a redemption will not be listed on any stock exchange, no established market is expected to develop for such notes and they may be subject to resale restrictions under applicable securities laws.

## Debentures

The likelihood that purchasers of the 2016, 2018 and 2020 convertible debentures and the Series B, C, D, E, F, G, I, J and K Senior Debentures will receive payments owing to them under the terms of such debentures will depend on the financial health of the REIT and its creditworthiness. In addition, such debentures are unsecured obligations of the REIT and are subordinate in right of payment to all the REIT's existing and future senior indebtedness as defined in each such respective trust indenture. Therefore, if the REIT becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the REIT's assets will be available to pay its obligations with respect to such debentures only after it has paid all of its senior indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the debentures then outstanding.

The debentures are also effectively subordinate to claims of creditors (including trade creditors) of the REIT's subsidiaries except to the extent the REIT is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. Finance Trust is a creditor of U.S. Holdco, a subsidiary of the REIT. A parent entity is entitled only to the residual equity of its subsidiaries after all debt obligations of its subsidiaries are discharged. In the event of bankruptcy, liquidation or reorganization of the REIT, holders of indebtedness of the REIT (including holders of the convertible debentures), may become subordinate to lenders to the subsidiaries of the REIT. The indentures governing such debentures do not prohibit or limit the ability of the REIT or its subsidiaries to incur additional debt or liabilities (including senior indebtedness), to amend and modify the ranking of any indebtedness or to make distributions, except, in respect of distributions where an event of default has occurred and such default has not been cured or waived. The indentures do not contain any provision specifically intended to protect holders of debentures in the event of a future leveraged transaction involving the REIT.

## Tax Risk

The Tax Act includes rules (referred to herein as the "SIFT Rules") which effectively tax certain income of a publicly traded trust or partnership that is distributed to its investors on the same basis as would have applied had the income been earned through a taxable corporation and distributed by way of dividend to its shareholders. The SIFT Rules apply only to "SIFT trusts", "SIFT partnerships" (each as defined in the Tax Act, and collectively, "SIFTS") and their investors. A trust that qualifies as a "real estate investment trust" (as defined in the Tax Act) for a taxation year will not be considered to be a SIFT trust in that year (the "REIT Exemption").

Based on a review of the REIT's assets and revenues, management believes that the REIT satisfied the tests to qualify for the REIT Exemption for 2015. Management of the REIT intends to conduct the affairs of the REIT so that it qualifies for the REIT Exemption at all times. However, as the REIT Exemption includes complex revenue and asset tests, no assurances can be provided that the REIT will continue to qualify for any subsequent year.

The Tax Act includes rules affecting certain publicly traded stapled securities of SIFTS, REITs and corporations which can result in the denial of a deduction for certain payments made by another entity to a REIT, or to a subsidiary of a REIT (the "Stapled Security Rules"). Management of each of the REIT and Finance Trust has reviewed the Stapled Security Rules and has concluded that the Stapled Security Rules should not materially adversely affect the REIT, Finance Trust or holders of Stapled Units. However, no assurances can be given in this regard.

There can be no assurance that income tax laws and the treatment of mutual fund trusts will not be changed in a manner which adversely affects holders of Stapled Units. If the REIT or Finance Trust ceases to qualify as a "mutual fund trust" under the Tax Act and the units thereof cease to be listed on a designated stock exchange (which currently includes the TSX), the REIT Units or Finance Trust Units, as the case may be, will cease to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds, registered education savings plans, registered disability savings plans and tax-free savings accounts.

Pursuant to rules in the Tax Act, if the REIT or Finance Trust experiences a "loss restriction event" (i) it will be deemed to have a year-end for tax purposes (which would result in an unscheduled distribution of undistributed net income and net realized capital gains, if any, at such time to Unitholders to the extent necessary so that such trust is not liable for income tax on such amounts under Part I of the Tax Act), and (ii) it will become subject to the loss restriction rules generally applicable to a corporation that experiences an acquisition of control, including a deemed realization of any unrealized capital losses and restrictions on its ability to carry forward losses. Generally, the REIT or Finance Trust will be subject to a loss restriction event if a person becomes a "majority-interest beneficiary", or a group of persons becomes a "majority-interest group of beneficiaries", of such trust, each as defined in the affiliated persons rules contained in the Tax Act, with certain modifications. Generally, a majority-interest beneficiary of a trust is a beneficiary of the trust whose beneficial interests in the income or capital of the trust, as the case may be, together with the beneficial interests in the income or capital of the trust, as the case may be, of persons and partnerships with whom such beneficiary is affiliated for the purposes of the Tax Act, represent greater than 50% of the fair market value of all the interests in the income or capital of the trust, as the case may be.

The REIT operates in the United States through U.S. Holdco which is capitalized with debt and equity provided by the REIT and debt in the form of U.S. Holdco Notes owed to Finance Trust and H&R Portfolio Limited Partnership. As at December 31, 2015, Finance Trust holds U.S. \$220.4 million of U.S. Holdco Notes. U.S. Holdco treats the U.S. Holdco Notes as indebtedness for U.S. federal income tax purposes. If the IRS or a

court were to determine that the U.S. Holdco Notes should be treated for U.S. federal income tax purposes as equity rather than debt, the interest on the U.S. Holdco Notes could be treated as a dividend, and interest on the U.S. Holdco Notes would not be deductible for U.S. federal income tax purposes. In addition, if the IRS were to determine that the interest rate on the U.S. Holdco Notes did not represent an arm's length rate, any excess amount over the arm's length rate would not be deductible and could be re-characterized as a dividend payment instead of an interest payment. This would significantly increase the U.S. federal income tax liability of U.S. Holdco, potentially including the tax liability for prior years in which U.S. Holdco has claimed a deduction for interest paid on the U.S. Holdco Notes. In addition, U.S. Holdco could be subject to penalties. Such an increase in tax liability could materially adversely affect U.S. Holdco's ability to make interest payments on the U.S. Holdco Notes or the REIT's ability to make distributions on its units. Additionally, payments of interest on the U.S. Holdco Notes considered to be paid to non-U.S. holders of Stapled Units as discussed below could be subject to withholding taxes.

To the extent that the REIT or a related party provided debt financing to U.S. Holdco (e.g., by acquiring U.S. Holdco Notes), in determining income for U.S. tax purposes, U.S. Holdco is subject to possible limitations on the deductibility of interest, if any, paid to the REIT or such related party. Section 163(j) of the Code applies to defer U.S. Holdco's deduction of interest paid on debt to the REIT or such related party in years that (i) the debt to equity ratio of U.S. Holdco exceeded 1.5:1, and (ii) the net interest expense exceeds an amount equal to 50% of its "adjusted taxable income" (generally, earnings before interest, taxes, depreciation, and amortization). The REIT's position is that, due to the treatment of Finance Trust as a grantor trust that is disregarded for U.S. federal tax purposes, the interest paid to Finance Trust is treated as having been paid to the holders of the Finance Trust Units and is therefore not subject to section 163(j). If section 163(j) applied to interest paid to Finance Trust, depending on the facts and circumstances and the availability of net operating losses to U.S. Holdco (which are subject to normal assessment by the IRS), the U.S. federal income tax liability of U.S. Holdco could increase. In such case, the amount of income available for distribution by the REIT to its Unitholders could be reduced.

### **Additional Tax Risks Applicable to Unitholders**

The REIT is classified as a foreign corporation for United States federal income tax purposes. A foreign corporation will be classified as a PFIC for United States federal income tax purposes if either (i) 75% or more of its gross income is passive income or (ii) on average for the taxable year, 50% or more of its assets (by value) produce or are held for the production of passive income. The properties of the REIT are managed by subsidiaries of the REIT rather than directly by its own employees. Although the REIT's officers and employees oversee the activities of the managers, it is unclear whether the REIT will be characterized as a PFIC for U.S. federal income tax purposes. If the REIT were treated as a PFIC, then in the absence of certain elections being made by a U.S. Unitholder with respect to such U.S. Unitholder's REIT Units, any distributions in respect of the REIT Units which are treated as "excess distribution" under the applicable rules and any gain on a sale or other disposition of the REIT Units would be treated as ordinary income and would be subject to special tax rules, including an interest charge. In addition, if the REIT were treated as a PFIC, then dividends paid on the REIT Units will not qualify for the reduced 20% US federal income tax rate applicable to certain qualifying dividends received by noncorporate taxpayers.

The foregoing adverse consequences of PFIC characterization can be mitigated by making certain elections. U.S. Unitholders should consult with their own tax advisors regarding the implications of these rules and the advisability of making one of the applicable PFIC elections, taking into account their particular circumstances. If the REIT were a PFIC, U.S. Unitholders would be required to file an annual return on IRS Form 8621.

U.S. individuals are required to report an interest in any "specified foreign financial asset" if the aggregate value of such assets owned by the U.S. individual exceeds \$50,000 (or such higher threshold as may apply to a particular taxpayer pursuant to the instructions to IRS Form 8938). The REIT Units are treated as a specified foreign financial asset for this purpose.

Finance Trust qualifies as an investment trust that is classified as a grantor trust for U.S. federal income tax purposes under Treasury Regulation section 301.7701-4(c) (a "Fixed Investment Trust") and section 671 of the Code. In general, an investment trust will qualify as a Fixed Investment Trust if: (i) the trust has a single class of ownership interests, representing undivided beneficial interests in the assets of the trust; and (ii) there is no power under the trust agreement to vary the investment of the holders. If Finance Trust is a Fixed Investment Trust, then it will generally be disregarded for U.S. federal income tax purposes, with the result that the holders of Finance Trust Units will be treated as owning directly their pro rata shares of all of the Finance Trust assets (i.e. primarily the U.S. Holdco Notes). Moreover, all payments made on the U.S. Holdco Notes will be treated as payments made directly to the holders of the Finance Trust units in proportion to their interest in Finance Trust.

Provided that Finance Trust qualifies as a Fixed Investment Trust and the U.S. Holdco Notes are respected as debt for U.S. federal income tax purposes, payments of principal and interest on the U.S. Holdco Notes will be treated as payments directly to Unitholders. Interest on the U.S. Holdco Notes will generally be taxable to U.S. holders as ordinary income at the time it is paid or accrued and will be subject to U.S. federal taxation at a maximum marginal rate of 39.6%. Interest on the U.S. Holdco Notes to Canadian resident Unitholders may be eligible for an exemption from U.S. withholding tax under the *Canada-U.S. Tax Convention* (the "U.S. Treaty") if the applicable limitation on benefit provisions contained in the U.S. Treaty are satisfied. If the U.S. Holdco Notes were treated as equity rather than debt for U.S. federal income tax purposes, then the stated interest on the U.S. Holdco Notes would be treated as a distribution with respect to units.

U.S. Unitholders are required to file an information return on IRS Form 3520 to report their interest in the Finance Trust and to include a copy of their Form 3520-A Foreign Grantor Trust Owner Statement, which is being provided by Finance Trust to its registered U.S. Unitholders. If you have not received a Foreign Grantor Trust Owner Statement, pro forma information to prepare a Form 3520-A Foreign Grantor Trust Owner Statement will be available on our website. You should consult with your own tax advisor regarding the requirements of filing information returns.

A holder of Stapled Units that is a resident of the U.S. for purposes of the Tax Act will generally be subject to Canadian withholding tax under Part XIII of the Tax Act at the rate of 25% on the portion of the income of the REIT and Finance Trust paid or credited (whether in cash or *in specie*) in respect of such Stapled Units, subject to reduction under the U.S. Treaty if applicable. In the case of income paid or credited on REIT units, the withholding rate applicable to a U.S. Unitholder entitled to the benefits of the U.S. Treaty in respect of such income would generally be reduced to 15%. In the case of income paid or credited to a U.S. resident holder of Finance Trust Units, there is uncertainty as to the appropriate rate of withholding under the U.S. Treaty and in light of this uncertainty, management of Finance Trust currently applies the 25% withholding rate under the Tax Act to income paid or credited to U.S. residents. U.S. Unitholders may be entitled to a refund of a portion of such withholding tax if the rate applied by Finance Trust were determined to be excessive. You should consult with your own tax advisor regarding the advisability of applying for such a refund.

## OUTSTANDING UNIT DATA

The beneficial interests in each of the Trusts are represented by a single class of units of each Trust respectively, which are unlimited in number. Each such unit carries a single vote at any meeting of unitholders of the respective Trust. As at February 11, 2016, there were 280,112,243 Stapled Units issued and outstanding (each comprised of a REIT unit and a Finance Trust unit).

As at December 31, 2015, the maximum number of units authorized to be issued under the REIT's Unit Option Plan was 28,000,000. Of this amount, 14,056,429 options had been granted, 343,422 have expired and 14,286,993 remain to be granted. Of the amount originally granted, 7,481,423 had been exercised and expired and therefore, 6,575,006 options to purchase Stapled Units were outstanding. As at February 11, 2016, there were 6,575,006 options to purchase Stapled Units outstanding of which 4,515,689 are fully vested.

As at December 31, 2015, the maximum number of units authorized to be granted under the REIT's Incentive Unit Plan was 5,000,000. Of this amount, 314,655 had been granted, of which 11,665 had been expired, 4,697,010 remain to be granted and 302,990 incentive units remain outstanding as at December 31, 2015. As at February 11, 2016, there were 304,825 incentive units outstanding.

As at December 31, 2015 and February 11, 2016, there were 16,663,816 exchangeable units outstanding of which 9,500,000 exchangeable units are accompanied by special voting units.

The following table lists the principal outstanding balance of the REIT's convertible debentures as at February 11, 2016, and the number of Stapled Units required to convert the convertible debentures to equity:

Convertible Debentures	Principal outstanding as at February 11, 2016	Maximum number of Stapled Units issuable
2016 Convertible Debentures (HR.DB.E)	\$75.0 million	2,918,287
2018 Convertible Debentures (HR.DB.H)	74.4 million	3,008,249
2020 Convertible Debentures (HR.DB.D)	99.7 million	4,240,595

## ADDITIONAL INFORMATION

Additional information relating to the REIT and Finance Trust, including the REIT's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Combined Financial Statements of

**H&R REAL ESTATE INVESTMENT TRUST**  
**and**  
**H&R FINANCE TRUST**

Years ended December 31, 2015 and 2014



**KPMG LLP**  
**Chartered Accountants**  
Bay Adelaide Centre  
333 Bay Street Suite 4600  
Toronto ON M5H 2S5  
Canada

Telephone (416) 777-8500  
Fax (416) 777-8818  
Internet www.kpmg.ca

## INDEPENDENT AUDITORS' REPORT

To the Unitholders of H&R Real Estate Investment Trust

We have audited the accompanying combined financial statements of H&R Real Estate Investment Trust and H&R Finance Trust (collectively, the "Trusts"), which comprise the combined statements of financial position as at December 31, 2015 and 2014, the combined statements of comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Combined Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the combined financial statements present fairly, in all material respects, the combined financial position of the Trusts as at December 31, 2015 and 2014, and their combined financial performance and their combined cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

February 17, 2016  
Toronto, Canada

# H&R REAL ESTATE INVESTMENT TRUST

## H&R FINANCE TRUST

Combined Statements of Financial Position  
(In thousands of Canadian dollars)

	<i>Note</i>	<b>December 31 2015</b>	December 31 2014
<b>Assets</b>			
Real estate assets:			
Investment properties	3	<b>\$12,576,075</b>	\$12,116,983
Properties under development	3, 4	<b>97,504</b>	105,006
		<b>12,673,579</b>	12,221,989
Equity accounted investments	5	<b>1,117,786</b>	703,019
Mortgages receivable	6	<b>103,353</b>	79,922
Assets classified as held for sale	7	<b>3,000</b>	296,992
Other assets	8	<b>54,310</b>	42,703
Cash and cash equivalents	9	<b>38,287</b>	23,755
		<b>\$13,990,315</b>	\$13,368,380
<b>Liabilities and Unitholders' Equity</b>			
Liabilities:			
Mortgages payable	10	<b>\$ 4,537,278</b>	\$ 4,318,136
Debentures payable	11	<b>1,550,769</b>	1,535,838
Exchangeable units	12	<b>334,110</b>	362,105
Deferred tax liability	27	<b>189,658</b>	129,864
Liabilities classified as held for sale	7	<b>-</b>	66,179
Loan payable	13	<b>55,717</b>	147,608
Bank indebtedness	14	<b>321,033</b>	123,863
Accounts payable and accrued liabilities	15	<b>176,830</b>	157,119
		<b>7,165,395</b>	6,840,712
Unitholders' equity		<b>6,824,920</b>	6,527,668
Commitments and contingencies	28		
Subsequent event	13		
		<b>\$13,990,315</b>	\$13,368,380

See accompanying notes to the combined financial statements.

Approved on behalf of the Board of Trustees:

"Robert Dickson" Trustee

"Thomas J. Hofstedter" Trustee



# H&R REAL ESTATE INVESTMENT TRUST

## H&R FINANCE TRUST

Combined Statements of Comprehensive Income

(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

	<i>Note</i>	<b>2015</b>	2014
Property operating income:			
Rentals from investment properties	19	<b>\$1,188,314</b>	\$1,227,803
Property operating costs		<b>(414,801)</b>	(424,527)
		<b>773,513</b>	803,276
Net income from equity accounted investments	5	<b>841</b>	44,123
Finance costs:			
Finance income		<b>3,770</b>	901
Finance cost - operations	20	<b>(295,010)</b>	(323,955)
Gain (loss) on change in fair value	21	<b>36,240</b>	(8,029)
		<b>(255,000)</b>	(331,083)
Trust expenses		<b>(9,327)</b>	(11,091)
Fair value adjustment on real estate assets	3	<b>(178,868)</b>	(42,523)
Loss on sale of real estate assets	3	<b>(5,428)</b>	(16,025)
Gain on foreign exchange		<b>49,375</b>	22,602
Net income before income taxes		<b>375,106</b>	469,279
Income tax expense	27	<b>(34,958)</b>	(44,624)
Net income		<b>340,148</b>	424,655
Other comprehensive income:			
Unrealized gain on translation of U.S. denominated foreign operations	18	<b>227,430</b>	90,140
Transfer of realized loss on cash flow hedges to net income		<b>31</b>	395
		<b>227,461</b>	90,535
<b>Total comprehensive income all attributable to unitholders</b>		<b>\$ 567,609</b>	\$ 515,190

See accompanying notes to the combined financial statements.

# H&R REAL ESTATE INVESTMENT TRUST

## H&R FINANCE TRUST

Combined Statements of Changes in Unitholders' Equity  
(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

UNITHOLDERS' EQUITY	Note	Value of Units	Accumulated net income	Accumulated distributions	Accumulated other comprehensive income (note 18)	Total
Unitholders' equity, January 1, 2014		\$ 5,028,278	\$ 3,398,726	\$ (2,181,794)	\$ 28,591	\$ 6,273,801
Proceeds from issuance of units		106,943	-	-	-	106,943
Issue costs		(28)	-	-	-	(28)
Net income		-	424,655	-	-	424,655
Distributions to unitholders	17(b)	-	-	(366,802)	-	(366,802)
Conversion of convertible debentures, net	11(c)	16	-	-	-	16
Units repurchased and cancelled	17(e)	(1,452)	-	-	-	(1,452)
Other comprehensive income		-	-	-	90,535	90,535
Unitholders' equity, December 31, 2014		5,133,757	3,823,381	(2,548,596)	119,126	6,527,668
<b>Proceeds from issuance of units</b>		<b>107,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>107,000</b>
<b>Issue costs</b>		<b>(353)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(353)</b>
<b>Net income</b>		<b>-</b>	<b>340,148</b>	<b>-</b>	<b>-</b>	<b>340,148</b>
<b>Distributions to unitholders</b>	<b>17(b)</b>	<b>-</b>	<b>-</b>	<b>(373,072)</b>	<b>-</b>	<b>(373,072)</b>
<b>Conversion of convertible debentures, net</b>	<b>11(c)</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5</b>
<b>Units repurchased and cancelled</b>	<b>17(e)</b>	<b>(3,937)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,937)</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>227,461</b>	<b>227,461</b>
<b>Unitholders' equity, December 31, 2015</b>		<b>\$ 5,236,472</b>	<b>\$ 4,163,529</b>	<b>\$ (2,921,668)</b>	<b>\$ 346,587</b>	<b>\$ 6,824,920</b>

See accompanying notes to the combined financial statements.

# H&R REAL ESTATE INVESTMENT TRUST

## H&R FINANCE TRUST

Combined Statements of Cash Flows  
(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

	Note	2015	2014
Cash provided by (used in):			
Operations:			
Net income		\$ 340,148	\$ 424,655
Items not affecting cash:			
Net income from equity accounted investments	5	(841)	(44,123)
Finance cost - operations	20	295,010	323,955
Rent amortization of tenant inducements	19	2,100	1,725
Gain on foreign exchange		(49,375)	(22,602)
Fair value adjustment on real estate assets	3	178,868	42,523
Loss on sale of real estate assets	3	5,428	16,025
Finance cost - (gain) loss on change in fair value	21	(36,240)	8,029
Unit-based compensation	17(a)(ii)	(697)	3,849
Deferred income taxes	27	32,617	43,704
Change in other non-cash operating items	22	4,524	(31,822)
		<b>771,542</b>	<b>765,918</b>
Investing:			
Properties under development	3, 22	(2,436)	(49,548)
Investment properties:			
Net proceeds on disposition of real estate assets		355,714	535,123
Acquisitions	3, 22	(301,668)	(151,942)
Redevelopment	3, 22	(43,331)	(56,606)
Capital expenditures	3	(41,716)	(38,206)
Leasing expenses and tenant inducements	3	(54,628)	(32,941)
Equity accounted investments, net		(207,986)	(75,906)
Mortgages receivable		13,016	(254)
Restricted cash	8	(7,773)	1,939
		<b>(290,808)</b>	<b>131,659</b>
Financing:			
Bank indebtedness		197,170	7,101
Interest paid		(281,692)	(304,409)
Mortgages payable:			
New mortgages payable		418,732	141,580
Principal repayments		(408,042)	(443,169)
Repayment of loan payable		(119,886)	-
Proceeds from issuance of debentures payable	11(c)	370,752	-
Repayment of debentures payable	11(c)	(350,000)	-
Proceeds from issuance of units, net of issue costs		847	3,249
Units repurchased and cancelled	17(e)	(3,937)	(1,452)
Finance cost - exchangeable unit distributions	20	(22,496)	(23,162)
Distributions to unitholders	17(b)	(267,650)	(281,444)
		<b>(466,202)</b>	<b>(901,706)</b>
Increase in cash and cash equivalents		14,532	(4,129)
Cash and cash equivalents, beginning of year	9	23,755	27,884
Cash and cash equivalents, end of year	9	\$ 38,287	\$ 23,755

See note on supplemental cash flow information (note 22).

See accompanying notes to the combined financial statements.

# H&R REAL ESTATE INVESTMENT TRUST

## H&R FINANCE TRUST

Notes to Combined Financial Statements

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

**Years ended December 31, 2015 and 2014**

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These combined financial statements include the accounts of H&R Real Estate Investment Trust (the "REIT") and H&R Finance Trust ("Finance Trust", together with the REIT, the "Trusts"). The REIT is an unincorporated open-ended trust and Finance Trust is an unincorporated investment trust both domiciled in Canada. The REIT owns, operates and develops commercial and residential properties across Canada and in the United States. The principal office and centre of administration of the Trusts is located at 3625 Dufferin Street, Suite 500, Toronto, Ontario M3K 1N4. Unitholders of each Trust participate pro rata in distributions of income and, in the event of termination of a Trust, participate pro rata in the net assets remaining after satisfaction of all liabilities of such Trust.

On October 1, 2008, the REIT completed an internal reorganization pursuant to a Plan of Arrangement (the "Plan of Arrangement") as described in the REIT's information circular dated August 20, 2008, resulting in the stapling of the Trusts' units. The Plan of Arrangement further resulted in, among other things, the creation of Finance Trust on October 1, 2008. Each unitholder received, for each REIT unit held, a unit of Finance Trust. Each issued and outstanding Finance Trust unit is stapled to a unit of the REIT on a one-for-one basis so as to form stapled units ("Stapled Units"), and such Stapled Units are listed and posted for trading on the Toronto Stock Exchange ("TSX") under the symbol HR.UN. The units of each of the Trusts may only be transferred together as Stapled Units unless an event of "uncoupling" has occurred.

On October 24, 2013, the Ontario Securities Commission (on its behalf and on behalf of the other provincial securities regulators) issued a decision which permits the REIT and Finance Trust to file one set of combined financial statements rather than separate financial statements. These combined financial statements are being presented on a basis whereby the assets and liabilities of the REIT and Finance Trust have been combined in accordance with the accounting principles applicable to both the REIT and Finance Trust in accordance with International Financial Reporting Standards ("IFRS") to reflect the financial position and results of the REIT and Finance Trust on a combined basis. The combined presentation is useful to the unitholders of the Trusts, for the following reasons:

- The units of the Trusts are stapled (as noted above), resulting in the Trusts being under common ownership;
- A support agreement between the Trusts ensures that until such time as an event of "uncoupling" occurs, when units are issued by the REIT, units must also be issued by Finance Trust simultaneously so as to maintain the stapled unit structure;
- The sole activity of Finance Trust is to provide capital funding to H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco"), a wholly owned U.S. subsidiary of the REIT; and
- The investment activities of Finance Trust are restricted in its Declaration of Trust to providing such funding to U.S. Holdco and to make temporary investments of excess funds.

### 1. Basis of preparation:

#### (a) Statement of compliance

These combined financial statements have been prepared in accordance with IFRS as published by the International Accounting Standards Board ("IASB") and using accounting policies described herein.

The combined financial statements were approved by the Board of Trustees of the REIT on February 17, 2016.

# H&R REAL ESTATE INVESTMENT TRUST

## H&R FINANCE TRUST

Notes to Combined Financial Statements  
(In thousands of Canadian dollars, except unit and per unit amounts)  
**Years ended December 31, 2015 and 2014**

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### 1. Basis of preparation (continued):

#### (b) Basis of measurement

The combined financial statements have been prepared on the historical cost basis except for the following material items in the combined statements of financial position which have been measured at fair value:

- (i) Real estate assets;
- (ii) Derivative financial instruments;
- (iii) Liabilities for cash-settled unit-based compensation;
- (iv) Convertible debentures; and
- (v) Exchangeable units.

#### (c) Functional currency and presentation

These combined financial statements are presented in Canadian dollars, except where otherwise stated, which is the Trusts' functional currency. All financial information has been rounded to the nearest thousand.

The Trusts present their combined statements of financial position based on the liquidity method, where all assets and liabilities are presented in ascending order of liquidity.

#### (d) Use of estimates and judgements

The preparation of these combined financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates.

##### (i) Use of estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Fair value of real estate assets (note 3);
- Fair value of financial instruments;
- Fair value of cash-settled unit-based compensation (note 17(a));
- Fair value of convertible debentures; and
- Deferred tax asset (liability) (note 27).

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### 1. Basis of preparation (continued):

#### (ii) Use of judgements

The critical judgements made in applying accounting policies that have the most significant effect on the amounts recognized in these combined financial statements are as follows:

- Business combinations

Accounting for business combinations under IFRS 3, *Business Combinations* ("IFRS 3") is only applicable if it is determined that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to the REIT. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. In the absence of such criteria, a group of assets is deemed to have been acquired. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. Judgement is used by management in determining whether the acquisition of an individual property, or group of properties, qualifies as a business combination in accordance with IFRS 3 or as an asset acquisition.

- Valuations of real estate assets

Real estate assets, which consist of investment properties and properties under development, are carried on the combined statements of financial position at fair value, as determined by either qualified external valuation professionals or by management. The valuations are based on a number of assumptions, such as appropriate discount rates and capitalization rates and estimates of future rental income, operating expenses and capital expenditures. Valuation of real estate assets is one of the principal estimates and uncertainties of these combined financial statements. Refer to note 3 for further information on estimates and assumptions made in the determination of the fair value of real estate assets. Judgement is applied in determining whether certain costs are additions to the carrying value of the real estate assets, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development properties.

- Leases

The REIT makes judgements in determining whether certain leases, in particular those tenant leases with long contractual terms and long-term ground leases where the REIT is the lessor, are operating or finance leases. The REIT has determined that all of its leases are operating leases.

- Income taxes

The REIT is a mutual fund trust and a real estate investment trust pursuant to the *Income Tax Act* (Canada) ("Tax Act"). Under current tax legislation, the REIT is not liable to pay Canadian income tax provided that its taxable income is fully distributed to unitholders each year. The REIT is a real estate investment trust if it meets prescribed conditions under the Tax Act relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the REIT Conditions and has assessed its interpretation and application to the REIT's assets and revenue, and it has determined that it qualifies as a real estate investment trust pursuant to the Tax Act. The REIT expects to continue to qualify as a real estate investment trust; however, should it no longer qualify, the REIT would be subject to tax on its taxable income distributed to unitholders.

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### 1. Basis of preparation (continued):

- Impairment of equity accounted investments

The REIT determines at each reporting date whether there is any objective evidence that the equity accounted investments are impaired. If so, the REIT calculates the amount of impairment as the difference between the recoverable amount of the equity accounted investment and its carrying value and recognizes the amount in net income.

### 2. Significant accounting policies:

The accounting policies set out below have been applied consistently for all periods presented in these combined financial statements.

#### (a) *Basis of combination:*

The principles used to prepare these combined financial statements are similar to those used to prepare consolidated financial statements. The combined financial statements include the assets, liabilities, unitholders' equity, comprehensive income (loss) and operating results of the Trusts, after elimination of the following:

- (i) the REIT's notes payable to Finance Trust; and
- (ii) the REIT's interest expense and Finance Trust's interest income from the notes payable to Finance Trust.

The foreign exchange gain (loss) recorded in net income as a result of exchanging Finance Trust's U.S. dollar note receivable from U.S. Holdco is not eliminated on combination as it flows through net income on Finance Trust's books and other comprehensive income on the REIT's books. This is because U.S. Holdco is a subsidiary of the REIT and forms part of its net investment in the United States, but is not a subsidiary of Finance Trust.

The combination of the Trusts does not result in the elimination of the equity of Finance Trust as neither of the Trusts hold any interest in the other. The equity of the Trusts is presented by way of combining the two together.

#### (b) *Basis of consolidation:*

These combined financial statements include the accounts of all entities in which the REIT holds a controlling interest. The REIT carries out a portion of its activities through joint operations and records its proportionate share of assets, liabilities, revenues, expenses and cash flows of all joint operations in which it participates. All material intercompany transactions and balances have been eliminated upon consolidation.

#### (c) *Investment properties:*

Investment properties are held to earn rental income or for capital appreciation, or both, but not for sale in the ordinary course of business. All of the REIT's commercial properties are investment properties which are measured at fair value.

The REIT performs an assessment of each investment property acquired to determine whether the acquisition is to be accounted for as an asset acquisition or a business combination. A transaction is considered to be a business combination if the acquired property meets the definition of a business under IFRS 3, as set out in note 1(d)(ii). The REIT expenses transaction costs on business combinations and capitalizes transaction costs on asset acquisitions.

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### 2. Significant accounting policies (continued):

Upon acquisition, investment properties are initially recorded at cost. Subsequent to initial recognition, the REIT uses the fair value model to account for investment properties. Under the fair value model, investment properties are recorded at fair value, determined based on available market evidence at each reporting date. The related gain or loss in fair value is recognized in net income in the year in which it arises.

Subsequent capital expenditures are capitalized to investment properties only when it is probable that future economic benefits of the expenditure will flow to the REIT and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. Leasing costs, such as commissions incurred in negotiating tenant leases, are capitalized to investment properties.

Gains or losses from the disposal of investment properties are determined as the difference between the net disposal proceeds and the carrying amount of the investment property and are recognized in net income in the year of disposal.

#### (d) *Properties under development:*

Properties under development for future use as investment property are accounted for as investment property under IAS 40, *Investment Property*. Costs eligible for capitalization to properties under development are initially recorded at cost, and subsequent to initial recognition are accounted for using the fair value method. At each reporting date, the properties under development are recorded at fair value based on available market evidence. The related gain or loss in fair value is recognized in net income in the year in which it arises.

The cost of properties under development includes direct development costs, realty taxes and borrowing costs that are directly attributable to the development. Borrowing costs associated with direct expenditures on properties under development are capitalized. Borrowing costs relating to the purchase of a site or property acquired for redevelopment are also capitalized. The amount of borrowing costs capitalized is determined first by reference to borrowing specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted.

Upon practical completion of a development, the development property is transferred to investment properties at the fair value on the date of practical completion. The REIT considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally this occurs upon completion of construction and receipt of all necessary occupancy and other material permits. Where the REIT has pre-leased space as of or prior to the start of the development and the lease requires the REIT to construct tenant improvements which enhance the value of the property, practical completion is considered to occur on completion of such improvements.

#### (e) *Assets and liabilities held for sale:*

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification; and it is unlikely there will be changes to the plan.

Non-current liabilities that are to be assumed by the buyer on disposition of the non-current asset, are also classified as held for sale. Non-current assets and non-current liabilities held for sale must be classified separately from other assets and other liabilities in the statement of financial position. These amounts cannot be offset or presented as a single amount.



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### 2. Significant accounting policies (continued):

(f) *Revenue recognition:*

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

Rental revenue from investment property is recognized in net income 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. Lease incentives granted are recognized as an integral part of total rental income over the term of the lease.

(g) *Income taxes:*

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The REIT is a mutual fund trust and a real estate investment trust pursuant to the Tax Act. Under current tax legislation, a real estate investment trust is entitled to deduct distributions of taxable income such that it is not liable to pay income tax provided that its taxable income is fully distributed to unitholders. The REIT intends to continue to qualify as a real estate investment trust and to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

The REIT qualified as a real estate investment trust throughout 2015 and the 2014 comparative year. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable net income, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, if such entities intend to settle current tax liabilities and assets on a net basis or the entities tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Finance Trust qualifies as a mutual fund trust that is not a specified investment flow-through trust under the Tax Act. In accordance with the terms of Finance Trust's Declaration of Trust, all of the net income for tax purposes will be paid or be payable to unitholders in the taxation year so that no income tax is payable by Finance Trust. For financial statement reporting purposes, the tax deductibility of Finance Trust's distributions is treated as an exemption from taxation as Finance Trust has distributed and is committed to continue distributing all of its taxable income to its unitholders.

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### 2. Significant accounting policies (continued):

(h) *Unit-based compensation:*

The REIT has a unit option plan and incentive unit plan available for REIT trustees, officers, employees and consultants as disclosed in note 17(a). These plans are considered to be a cash-settled liability under IFRS 2, *Share-based Payment* and as a result is measured at each reporting period and at settlement date at its fair value as defined by IFRS. The fair value of the amount payable to participants in respect of the unit option plan and incentive unit plan is recognized as an expense with a corresponding increase or decrease in liabilities, over the period that the employees unconditionally become entitled to payment. Any change in the fair value of the liability is recognized as a component of trust expenses.

(i) *Cash and cash equivalents:*

Cash and cash equivalents include deposits in banks, certificates of deposit and short-term investments with original maturities of less than 90 days.

(j) *Restricted cash:*

Restricted cash includes amounts held in reserve by lenders to fund mortgage payments, repairs and capital expenditures or property tax payments.

(k) *Foreign currency translation:*

The REIT accounts for its investments in U.S. Holdco, a wholly owned subsidiary of the REIT, in the United States ("foreign operations") as a U.S. denominated foreign operation. Assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rates in effect at the combined statements of financial position dates and revenue and expenses are translated at the average exchange rates for the reporting periods.

The foreign currency translation adjustment is recorded as a separate component of accumulated other comprehensive income (loss) until there is a reduction in the REIT's net investment in the foreign operations. The U.S. dollar denominated bank indebtedness is designated as a hedge of the REIT's investment in self-sustaining operations. Accordingly, the accumulated unrealized gains or losses arising from the translation of this obligation are recorded as a foreign currency translation adjustment in accumulated other comprehensive income (loss).

Finance Trust's U.S. dollar denominated assets and liabilities are translated into Canadian dollars at the exchange rates in effect at the combined statements of financial position dates and revenue and expenses are translated at the actual exchange rate on the date incurred, resulting in any gain (loss) recorded in comprehensive income.

(l) *Financial instruments:*

(i) *Non-derivative financial assets*

Cash and cash equivalents, restricted cash, accounts receivable and mortgages receivable, with fixed or determinable payments that are not quoted in an active market, are non-derivative financial assets classified as loans and receivables. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

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### 2. Significant accounting policies (continued):

The Trusts derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Financial assets and liabilities are offset and the net amount presented in the combined statements of financial position when, and only when, the Trusts have a current legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

#### (ii) Non-derivative financial liabilities

Non-derivative financial liabilities consist of mortgages payable, loan payable, senior debentures, bank indebtedness and accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

The Trusts derecognize a financial liability when its contractual obligations are discharged or cancelled or expire.

#### (iii) Derivative financial instruments

The REIT holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are recognized initially at fair value; attributable transaction costs are recognized in net income as incurred. Subsequent to initial recognition, derivatives are measured at fair value at the end of each reporting period. Any resulting gain or loss is recognized in net income immediately unless the derivative is designated and effective as a hedging instrument. None of the REIT's derivative instruments are accounted for as hedges.

#### (iv) Financial liabilities measured at fair value through net income

A financial liability is classified at fair value through net income if it is classified as held for trading or is designated as such upon initial recognition.

The convertible debentures and exchangeable units were designated at fair value through net income upon initial recognition. Any gains or losses arising on remeasurement are recognized in net income.

#### (m) *Stapled Units:*

Under IAS 32, *Financial Instruments: Presentation* ("IAS 32"), puttable instruments, such as the Stapled Units are generally classified as financial liabilities unless the exemption criteria are met for equity classification. As a result of the REIT receiving consent of its unitholders to modify the REIT's Declaration of Trust to eliminate the mandatory distribution and leave distributions to the discretion of the trustees and the ability of the trustees to fund distributions by way of issuing additional units prior to the amendment, the REIT met the exemption criteria under IAS 32 for equity classification. Finance Trust also met the exemption criteria under IAS 32 for equity classification. Nevertheless, the Stapled Units are not considered ordinary units under IAS 33, *Earnings Per Share*, and therefore an income per unit calculation is not presented.

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### 2. Significant accounting policies (continued):

(n) *Finance costs:*

Finance costs are comprised of interest expense on borrowings, distributions on exchangeable units classified as liabilities, gain (loss) on change in fair value of convertible debentures, gain (loss) on change in fair value of exchangeable units and net gain (loss) on derivative instruments.

Finance costs associated with financial liabilities presented at amortized cost are recognized in net income using the effective interest method.

(o) *Investment in associates and joint ventures:*

An associate is an entity over which the Trust has significant influence. Significant influence is the power to participate in an entity's financial and operating policy decisions, which is presumed to exist when an investor holds 20 percent or more of the voting power of another entity. An investment is considered an associate when significant influence exists but there is no joint control over the investment. The Trusts account for investments in associates using the equity method.

The Trusts consider investments in joint arrangements to be joint ventures when they jointly control one or more investment properties with another party and have rights to the net assets of the arrangements. This occurs when the joint arrangement is structured through a separate vehicle, such as a partnership, with separation maintained.

The Trusts' interest in its associates and joint ventures are accounted for using the equity method and are carried on the combined statements of financial position at cost, adjusted for the Trusts' proportionate share of post-acquisition changes in the net assets, less any identified impairment loss. The Trusts' share of profits and losses is recognized in the share of net income from the associate or joint venture investments in the combined statements of comprehensive income and the Trusts' other comprehensive income includes their share of the associate or joint ventures' other comprehensive income.

An associate or a joint venture is considered to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the joint venture and that event has a negative impact on the future cash flows of the joint venture that can be reliably estimated.

(p) *Joint Operations:*

The Trusts consider investments in joint arrangements to be joint operations when they make operating, financial and strategic decisions over one or more investment properties jointly with another party and have direct rights to the assets and obligations for the liabilities relating to the arrangement. When the arrangement is considered to be a joint operation, the Trusts will include their share of the underlying assets, liabilities, revenue and expenses in their financial results.

(q) *Business Combinations:*

The purchase method of accounting is used for acquisitions meeting the definition of a business. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the REIT, the liabilities incurred by the REIT to former owners of the acquiree, and the equity interests issued by the REIT.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their acquisition date fair values. The excess of the cost of acquisition over the fair value of the REIT's share of the identifiable net assets acquired, if any, is recorded as goodwill. If the cost of acquisition is less than the fair value of the REIT's share of the net assets acquired, the difference is recognized directly in the combined statements of comprehensive income for the year as an acquisition gain. Any transaction costs incurred with respect to the business combination are expensed in the period incurred.

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### 2. Significant accounting policies (continued):

(r) *Segmented Reporting:*

A reportable operating segment is a distinguishable component of the Trusts that is engaged either in providing related products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other reportable segments. The Trusts have both operating segments and geographic segments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, determined to be the Chief Executive Officer ("CEO"). The Trusts have six operating segments: office, retail, industrial, residential, Primaris and ECHO. The office segment includes the Trusts' head office and Finance Trust. The operating segments derive their revenue primarily from rental income from lessees. All of the Trusts' operating activities are reported within these six operating segments.

Geographic segments are separated into Canadian and U.S. properties. All of the Trusts' operating activities are reported within the Canadian and U.S. property geographic segments.

(s) *Levies:*

Effective January 1, 2014, the REIT has adopted IFRS Interpretations Committee, 21, *Levies* ("IFRIC 21"). IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. For the purposes of IFRIC 21, realty taxes payable by the REIT are considered levies. Based on the guidance of IFRIC 21, the REIT recognizes the full amount of annual U.S. realty tax liabilities at the point in time when the realty tax obligation is imposed.

(t) *New standards and interpretations not yet adopted:*

Standards issued but not yet effective up to the date of issuance of these combined financial statements are described below. The Trusts intend to adopt these standards when they become effective.

(i) *Financial Instruments: Classification and Measurement ("IFRS 9")*

In July 2014, the IASB issued IFRS 9 *Financial Instruments: Classification and Measurement* replacing IAS 39, *Financial Instruments: Recognition and Measurement*. The project had three main phases: classification and measurement, impairment, and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted. The Trusts are currently assessing the impact of the new standard on the combined financial statements.

(ii) *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)*

On May 6, 2014, the IASB issued *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11). The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The Trusts intend to adopt the amendments to IFRS 11 in the combined financial statements for the annual period beginning on January 1, 2016.

(iii) *Revenue from Contracts with Customers ("IFRS 15")*

On May 28, 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue - Barter Transactions Involving Advertising Services. The Trusts intend to adopt IFRS 15 in the combined financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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### 2. Significant accounting policies (continued):

#### (iv) Leases ("IFRS 16")

On January 13, 2016, the IASB issued IFRS 16, *Leases*. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet. The new standard is effective for years beginning on or after January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

### 3. Real estate assets:

	Investment Properties December 31 2015	Properties Under Development December 31 2015	Investment Properties December 31 2014	Properties Under Development December 31 2014
Opening balance, beginning of year	\$ 12,116,983	\$ 105,006	\$ 12,786,205	\$ 146,478
Acquisitions of investment properties, including transaction costs	346,914	-	151,942	-
Additions to existing investment properties:				
Capital expenditures	41,716	-	38,206	-
Leasing expenses and tenant inducements	54,628	-	32,941	-
Redevelopment	45,845	-	52,684	-
Additions to properties under development (including capitalized interest)	-	2,436	-	50,880
Dispositions	(148,680)	(9,938)	(947,162)	-
Transfer of investment properties to equity accounted investments (note 5)	(194,970)	-	-	-
Transfer of investment properties to assets classified as held for sale (note 7)	(3,000)	-	(296,992)	-
Amortization of tenant inducements, straight-line rents and blend and extend rents included in revenue	16,861	-	21,331	-
Transfer of property under development that has reached practical completion to investment properties	-	-	92,352	(92,352)
Change in foreign exchange	478,646	-	227,999	-
Fair value adjustment on real estate assets	(178,868)	-	(42,523)	-
Closing balance, end of year	\$ 12,576,075	\$ 97,504	\$ 12,116,983	\$ 105,006

Legal title to each of the properties in the United States is held by a separate legal entity which is 100% owned, directly or indirectly, by U.S. Holdco, a wholly owned subsidiary of the REIT. In certain cases, the assets of each such separate legal entity are not available to satisfy the debts or obligations of any other person or entity. Each such separate legal entity maintains separate books and records. The identity of the owner of a particular United States property is available from U.S. Holdco. This structure does not prevent distributions to the entity owners provided there are no conditions of default.

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### 3. Real estate assets (continued):

#### Asset acquisitions:

During the year ended December 31, 2015, the REIT acquired six investment properties (year ended December 31, 2014 - three investment properties, a 50% ownership interest in one investment property, one equity accounted investment and one parcel of land adjacent to an existing investment property). The results of operations for these acquisitions are included in these combined financial statements from the date of acquisition.

The following table summarizes the cost plus transaction costs incurred of the assets and liabilities as at the respective dates of acquisition:

	December 31 2015	December 31 2014
<b>Assets</b>		
Investment properties	\$ 346,822	\$ 151,890
Equity accounted investments:		
Investment in associate	-	71,065
<b>Liabilities</b>		
Mortgage payable	(45,247)	-
<b>Total identifiable net assets settled by cash</b>	<b>\$ 301,575</b>	<b>\$ 222,955</b>

During the year ended December 31, 2015, the REIT incurred additional costs of \$92 (December 31, 2014 - \$52) in respect to prior year acquisitions which are not included in the above table.

#### Asset dispositions:

During the year ended December 31, 2015, the REIT sold a 49.5% ownership interest in 16 industrial properties, a 75% ownership interest in one industrial property and a 50% ownership interest in three industrial properties. In addition, the REIT sold two industrial properties, three retail properties, one office property, a parcel of land and a portion of an office property (sold as separate condominium units) and recognized a loss on sale of real estate assets of \$5,428. The loss on sale of real estate assets is primarily due to mark-to-market adjustments on the purchasers' assumption of mortgages on 11 properties of \$4,525 and one-time prepayment penalties of \$1,999 to discharge two mortgages. Excluding these costs, the properties sold during the year ended December 31, 2015 generated a gain of sale of \$1,096.

During the year ended December 31, 2014, the REIT sold a 50% ownership interest in 84 industrial properties, a 50% ownership interest in three retail properties and a 50% ownership interest in one office property. In addition, the REIT sold five industrial properties, five retail properties, one office property, a parcel of land and a portion of an office property (sold as separate condominium units) and recognized a loss on sale of real estate assets of \$16,025. The loss on sale of real estate assets is primarily due to mark-to-market adjustments on the purchasers' assumption of mortgages on 23 properties of \$16,560 and one-time prepayment penalties of \$3,112 to discharge five mortgages. Excluding these costs, the properties sold during the year ended December 31, 2014 generated a gain of sale of \$3,647.

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### 3. Real estate assets (continued):

#### Fair value disclosure:

The estimated fair values of the REIT's real estate assets are based on the following methods and key assumptions:

- (i) Consideration of recent sales of similar properties within similar market areas;
- (ii) The discounted cash flow analysis which is based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at each reporting period, less future cash outflows in respect of such leases discounted generally over a term of ten years;
- (iii) The direct capitalization method which is based on the conversion of normalized earnings directly into an expression of fair value. The normalized net income for the year is divided by an overall capitalization rate; and
- (iv) The use of external independent appraisers. During the year ended December 31, 2015, certain properties were valued by professional external independent appraisers. These properties make up 21.3% of the investment properties balance as at December 31, 2015 (year ended December 31, 2014 - 24.8%). The remainder of the portfolio is valued by the REIT's internal valuation team. The properties that are externally appraised are judgmentally selected by management to form a representative cross section of the REIT's portfolio based on size, geography and the availability of market data. In addition, an external independent appraisal is often obtained for properties acquired or properties where the associated mortgage is being refinanced.

The REIT utilizes external industry sources to determine a range of capitalization and discount rates. To the extent that the externally provided capitalization and discount rates ranges change from one reporting period to the next, the fair value of the investment properties would increase or decrease accordingly.

The REIT has utilized the following weighted average discount rates and terminal capitalization rates in estimating the fair value of the investment properties:

	Discount Rates			Terminal Capitalization Rates		
	Canada	United States	Total	Canada	United States	Total
<b>December 31, 2015</b>	<b>6.49%</b>	<b>7.25%</b>	<b>6.68%</b>	<b>5.96%</b>	<b>6.84%</b>	<b>6.18%</b>
December 31, 2014	6.49%	7.42%	6.68%	5.91%	7.04%	6.14%



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### 3. Real estate assets (continued):

Weighted Average Overall Capitalization Rates	December 31, 2015					Total
	Office	Primaris	Retail	Industrial	Residential	
Canada	6.12%	5.56%	6.76%	6.79%	N/A	6.02%
United States	6.34%	N/A	7.36%	N/A *	5.82%	6.66%
Total						6.18%

\* As at December 31, 2015, U.S. industrial real estate assets are accounted for as equity accounted investments (note 5).

Weighted Average Overall Capitalization Rates	December 31, 2014					Total
	Office	Primaris	Retail	Industrial	Residential	
Canada	6.00%	5.60%	6.57%	6.96%	N/A	5.99%
United States	6.14%	N/A	7.29%	7.05%	5.90%	6.69%
Total						6.11%

The weighted average overall capitalization rates as at December 31, 2015 are calculated based on stabilized net operating income for the three months ended December 31, 2015 (December 31, 2014 - based on the three months ended December 31, 2014).

#### Fair value sensitivity:

The REIT's investment properties are classified as fair value level 3 assets under the fair value hierarchy, as the inputs in the valuations of these investment properties are not based on observable market data. The following table provides a sensitivity analysis for the weighted average capitalization rate applied as at December 31, 2015:

Capitalization Rate Sensitivity	Weighted Average Overall Capitalization Rate	Fair Value of Investment Properties	Fair Value Variance	% Change	Ratio of Debt <sup>(1)</sup> to Total Assets
(0.75)%	5.43%	\$ 14,313,102	\$ 1,737,027	13.81%	41.1%
(0.50)%	5.68%	\$ 13,683,124	\$ 1,107,049	8.80%	42.8%
(0.25)%	5.93%	\$ 13,106,264	\$ 530,189	4.22%	44.5%
<b>December 31, 2015</b>	<b>6.18%</b>	<b>\$ 12,576,075</b>	<b>\$ -</b>	<b>0.00%</b>	<b>46.2%</b>
0.25%	6.43%	\$ 12,087,114	\$ (488,961)	(3.89%)	47.9%
0.50%	6.68%	\$ 11,634,752	\$ (941,323)	(7.49%)	49.6%
0.75%	6.93%	\$ 11,215,028	\$ (1,361,047)	(10.82%)	51.2%

(1) For the above calculation, debt includes mortgages payable, the face value of debentures payable, loan payable and bank indebtedness.

### 4. Properties under development:

Project	Address	December 31 2015	December 31 2014
Heart Lake	Mayfield West Business Park, Caledon, ON	\$ 82,097	\$ 80,612
Airport Road	7900 Airport Road, Brampton, ON	15,407	24,394
		<b>\$ 97,504</b>	<b>\$ 105,006</b>

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### 5. Equity accounted investments:

The REIT has entered into a number of arrangements with other parties for the purpose of jointly owning and operating investment properties. In order to determine how these arrangements should be accounted for, the REIT has assessed the structure of the arrangement, and whether the REIT has control over the operations of such properties. The REIT has found that its arrangements fall into two categories: a) joint ventures, where the REIT has joint control over the operations, each investment is structured as a separate vehicle and the REIT has rights to the net assets of the entities; and b) investments in associates, where the REIT has significant influence over the investment but does not have joint control over the operations. Both of these types of arrangements are accounted for using the equity method. During the year ended December 31, 2015, the REIT disposed of a 49.5% ownership interest in 16 industrial properties in the U.S. and the remaining 50.5% interest is now accounted for as a joint venture. The amount transferred into equity accounted investments relating to these properties was \$194,970 (note 3). During the year ended December 31, 2014, the REIT acquired a net interest in one associate for \$71,065 (note 3). The REIT's interests in equity accounted investments are outlined as follows:

	Location	Principal activity	Ownership interest (%)	
			December 31 2015	December 31 2014
Investments in joint ventures:				
100 Yonge	Toronto, Ontario	Own and operate investment property	33.3	33.3
Scotia Plaza	Toronto, Ontario	Own and operate investment property	33.3	33.3
Telus Tower	Calgary, Alberta	Own and operate investment property	50.0	50.0
16 industrial properties	United States	Own and operate investment property	50.5	-
Investments in associates:				
ECHO Realty LP ("ECHO")	United States	Own and operate investment properties	33.6	33.6
LIC Operator Co., L.P. ("LIC")	United States	Develop, own and operate investment property	50.0	50.0

The following tables summarize the total amounts of the financial information of ECHO, LIC, 100 Yonge, Scotia Plaza, Telus Tower and the 16 industrial properties in the U.S. and reconciles the summarized financial information to the carrying amount of the REIT's interest in these arrangements. The REIT has determined that it is appropriate to aggregate each of the investments in joint ventures and investments in associates as the individual investments are not individually material:

December 31, 2015	Investments in joint ventures	Investments in associates	Total
<b>Equity accounted investments:</b>			
Investment properties	\$ 2,001,977	\$ 2,162,079	\$ 4,164,056
Properties under development	-	471,024	471,024
Loan receivable	70,100	83,877	153,977
Other assets	14,681	108,580	123,261
Cash and cash equivalents	18,888	89,509	108,397
Mortgages payable	(906,289)	(667,601)	(1,573,890)
Bank indebtedness	-	(268,248)	(268,248)
Accounts payable and accrued liabilities	(26,262)	(82,563)	(108,825)
Non-controlling interest	-	(61,388)	(61,388)
Net assets	1,173,095	1,835,269	3,008,364
REIT's share of net assets	466,522	713,506	1,180,028
Elimination of intercompany loans	(34,083)	(28,159)	(62,242)
Amount in the combined statements of financial position	\$ 432,439	\$ 685,347	\$ 1,117,786

ECHO reports its financial position to the REIT one month in arrears due to time constraints on its reporting. Therefore, the above amounts include ECHO's financial information as at November 30, 2015. In December 2015, ECHO secured new mortgages on two properties for approximately \$3,900 (REIT's share). The REIT is not aware of any other significant transactions that ECHO was a party to in December 2015.

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### 5. Equity accounted investments (continued):

December 31, 2014	Investments in joint ventures	Investments in associates	Total
Equity accounted investments:			
Investment properties	\$ 1,691,400	\$ 1,552,742	\$ 3,244,142
Properties under development	-	225,005	225,005
Loan receivable	64,300	222,210	286,510
Other assets	11,421	30,987	42,408
Cash and cash equivalents	16,450	23,013	39,463
Mortgages payable	(778,451)	(569,111)	(1,347,562)
Bank indebtedness	-	(163,017)	(163,017)
Accounts payable and accrued liabilities	(52,717)	(51,390)	(104,107)
Non-controlling interest	-	(27,075)	(27,075)
<b>Net assets</b>	<b>952,403</b>	<b>1,243,364</b>	<b>2,195,767</b>
REIT's share of net assets	355,216	454,554	809,770
Elimination of intercompany loans	(32,150)	(74,601)	(106,751)
<b>Amount in the combined statements of financial position</b>	<b>\$ 323,066</b>	<b>\$ 379,953</b>	<b>\$ 703,019</b>

ECHO reports its financial position to the REIT one month in arrears due to time constraints on its reporting. Therefore, the above amounts include ECHO's financial information as at November 30, 2014. The REIT is not aware of ECHO being a party to any significant transactions that occurred during December 2014.

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### 5. Equity accounted investments (continued):

	Year ended December 31, 2015			Year ended December 31, 2014		
	Investments in joint ventures	Investments in associates	Total	Investments in joint ventures	Investment in associates	Total
<b>Net income (loss) from equity accounted investments:</b>						
Rentals from investment properties	\$201,129	\$ 163,146	\$ 364,275	\$ 174,335	\$ 122,064	\$ 296,399
Property operating costs	(79,462)	(31,770)	(111,232)	(82,688)	(24,929)	(107,617)
Net income from equity accounted investments	-	1,646	1,646	-	1,339	1,339
Finance income	2,784	4,570	7,354	2,798	6,767	9,565
Finance cost - operations	(33,437)	(34,755)	(68,192)	(27,890)	(28,835)	(56,725)
Loss on change in fair value	-	(3,341)	(3,341)	-	-	-
Trust expenses	(262)	(2,949)	(3,211)	-	(502)	(502)
Fair value adjustment on real estate assets	(142,181)	(12,407)	(154,588)	(7,732)	2,632	(5,100)
Gain (loss) on sale of real estate assets	-	(8,435)	(8,435)	-	1,736	1,736
Income taxes	(160)	(98)	(258)	-	(440)	(440)
Net income (loss)	(51,589)	75,607	24,018	58,823	79,832	138,655
Net income attributable to non-controlling interest	-	(823)	(823)	-	(2,510)	(2,510)
Net income (loss) attributable to shareholders	(51,589)	74,784	23,195	58,823	77,322	136,145
REIT's share of net income (loss) attributable to shareholders	(21,826)	25,140	3,314	21,586	26,015	47,601
Elimination of intercompany loan interest	(1,354)	(1,119)	(2,473)	(1,354)	(2,124)	(3,478)
Amount in the combined statements of comprehensive income (loss)	\$ (23,180)	\$ 24,021	\$ 841	\$20,232	\$23,891	\$ 44,123

ECHO reports its financial results to the REIT one month in arrears due to time constraints on its reporting. Therefore, the above amounts include ECHO's financial information for December 1, 2014 to November 30, 2015 and December 1, 2013 to November 30, 2014. In December 2015, ECHO secured new mortgages on two properties for approximately \$3,900 (REIT's share). The REIT is not aware of any other significant transactions that ECHO was a party to in December 2015.

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### 6. Mortgages receivable:

Mortgages receivable represent vendor take-back financing and other arrangements. As at December 31, 2015, mortgages receivable bear interest at effective rates between 3.13% and 9.00% per annum (December 31, 2014 - between 3.13% and 4.40% per annum) with a weighted average effective rate of 4.74% per annum (December 31, 2014 - 3.36%), and mature between 2016 and 2026 (December 31, 2014 - mature between 2015 and 2026).

Future repayments are as follows:

	December 31 2015
Years ending December 31:	
2016	\$ 67,957
2017	-
2018	-
2019	-
2020	26,497
Thereafter	8,899
	<b>\$ 103,353</b>

### 7. Assets and liabilities classified as held for sale:

As at December 31, 2015, the REIT holds a 50% ownership interest in one industrial property (December 31, 2014 - 49.5% ownership interest in 16 industrial properties, a 50% ownership interest in one industrial property and a 100% ownership interest in one industrial property) as held for sale.

The following table sets forth the combined statement of financial position items associated with investment properties classified as held for sale:

	December 31 2015	December 31 2014
<b>Assets</b>		
Investment properties	<b>\$ 3,000</b>	\$ 296,992
<b>Liabilities</b>		
Mortgages payable	<b>\$ -</b>	\$ 65,958
Accounts payable and accrued liabilities	-	221
	<b>\$ -</b>	<b>\$ 66,179</b>

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### 8. Other assets:

	December 31 2015	December 31 2014
Restricted cash*	\$ 16,457	\$ 8,684
Accounts receivable	14,686	12,263
Prepaid expenses and sundry assets	23,167	21,756
	<b>\$ 54,310</b>	<b>\$ 42,703</b>

\* Included in restricted cash are bank term deposits of \$4,151 (December 31, 2014 - \$nil) at a rate of interest of 0.75% (December 31, 2014 - nil).

### 9. Cash and cash equivalents:

Cash and cash equivalents at December 31, 2015 includes cash on hand of \$38,021 (December 31, 2014 - \$23,496) and bank term deposits of \$266 (December 31, 2014 - \$259) at a rate of interest of 0.44% (December 31, 2014 - 0.88%).

### 10. Mortgages payable:

The mortgages payable are secured by real estate assets and letters of credit in certain cases, bearing fixed interest with a contractual weighted average rate of 4.60% (December 31, 2014 - 4.85%) per annum and maturing between 2016 and 2033 (December 31, 2014 - maturing between 2015 and 2035). Included in mortgages payable at December 31, 2015 are U.S. dollar denominated mortgages of U.S. \$1,165,504 (December 31, 2014 - U.S. \$1,122,169). The Canadian equivalents of these amounts are \$1,608,396 (December 31, 2014 - \$1,301,716).

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

Future principal mortgage payments are as follows:

	December 31 2015
Years ending December 31:	
2016	\$ 381,144
2017	551,024
2018	243,631
2019	279,166
2020	559,476
Thereafter	2,513,551
	4,527,992
Financing costs and mark-to-market adjustment arising on acquisitions	9,286
	<b>\$ 4,537,278</b>

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### 11. Debentures payable:

The full terms of the debentures are contained in the public offering documents; the following table summarizes the key terms:

					December 31	December 31	
					2015	2014	
	Maturity	Contractual interest rate	Effective interest rate	Conversion price	Face value	Carrying value	Carrying value
Convertible Debentures (a)							
2016 Convertible Debentures (HR.DB.E)	December 31, 2016	4.50%	4.50%	\$ 25.70	\$ 75,000	<b>\$ 75,188</b>	\$ 76,208
2018 Convertible Debentures (HR.DB.H)	November 30, 2018	5.40%	5.40%	24.73	74,394	<b>76,016</b>	79,607
2020 Convertible Debentures (HR.DB.D)	June 30, 2020	5.90%	5.90%	23.50	99,654	<b>102,145</b>	105,623
					249,048	<b>253,349</b>	261,438
Senior Debentures (b)							
Series A Senior Debentures	*	5.20%	5.40%	-	-	-	114,986
Series H Senior Debentures	**	(1)	(1)	-	-	-	234,700
Series D Senior Debentures	July 27, 2016	4.78%	4.96%	-	180,000	<b>179,862</b>	179,555
Series I Senior Debentures	January 23, 2017	(2)	(2)	-	60,000	<b>59,891</b>	59,792
Series B Senior Debentures	February 3, 2017	5.90%	6.06%	-	115,000	<b>114,815</b>	114,648
Series E Senior Debentures	February 2, 2018	4.90%	5.22%	-	100,000	<b>99,449</b>	99,207
Series J Senior Debentures	February 9, 2018	(3)	(3)	-	172,500	<b>172,050</b>	-
Series G Senior Debentures	June 20, 2018	3.34%	3.54%	-	175,000	<b>174,186</b>	173,873
Series C Senior Debentures	December 1, 2018	5.00%	5.30%	-	125,000	<b>124,009</b>	123,703
Series K Senior Debentures	March 1, 2019	(4)	(4)	-	200,000	<b>199,036</b>	-
Series F Senior Debentures	March 2, 2020	4.45%	4.63%	-	175,000	<b>174,122</b>	173,936
					1,302,500	<b>1,297,420</b>	1,274,400
					<b>\$1,551,548</b>	<b>\$1,550,769</b>	<b>\$1,535,838</b>

The carrying values of the Convertible Debentures (as defined below) are determined using the quoted price on the TSX on December 31, 2015 and December 31, 2014.

\* Matured and repaid on February 3, 2015.

\*\* Matured and repaid on October 9, 2015.

(2) Bore interest at a rate equal to 3-month Canadian Dealer Offered Rate plus 150 basis points. The REIT entered into an interest rate swap on the Series H Senior Debentures to fix the interest rate at 2.94%.

(3) Bears interest at a rate equal to 3-month Canadian Dealer Offered Rate plus 165 basis points. The weighted average interest rate for year ended December 31, 2015 was 2.57%.

(4) Denominated in U.S. dollars and bears interest at a rate equal to 3-month London Interbank Offered Rate plus 108 basis points. The weighted average interest rate for the period ended December 31, 2015 was 1.37%.

(5) Bears interest at a rate equal to 3-month Canadian Dealer Offered Rate plus 143 basis points. The weighted average interest rate for the period ended December 31, 2015 was 2.19%.

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### 11. Debentures payable (continued):

- (a) *2016 Convertible Debentures, 2018 Convertible Debentures and 2020 Convertible Debentures (collectively, the “Convertible Debentures”):*

In July 2010, the REIT completed a public offering of \$100,000 Series D convertible unsecured subordinated debentures (the “2020 Convertible Debentures”). The 2020 Convertible Debentures could not be redeemed by the REIT on or before June 30, 2014. Thereafter, but prior to June 30, 2016, the 2020 Convertible Debentures may be redeemed, in whole or in part, only if the current market price of a Stapled Unit is at least 125% of the conversion price. On or after June 30, 2016 and prior to the maturity date, the 2020 Convertible Debentures may be redeemed by the REIT, in whole or in part, at a price equal to the principal amount plus accrued interest. Interest on the 2020 Convertible Debentures is payable semi-annually on June 30 and December 31.

In November 2011, the REIT completed a public offering of \$75,000 Series E convertible unsecured subordinated debentures (the “2016 Convertible Debentures”). The 2016 Convertible Debentures could not be redeemed by the REIT on or before November 30, 2014. Thereafter, but prior to November 30, 2015, the 2016 Convertible Debentures could have been redeemed, in whole or in part, only if the current market price of a Stapled Unit is at least 125% of the conversion price. On or after November 30, 2015 and prior to the maturity date, the 2016 Convertible Debentures may be redeemed by the REIT, in whole or in part, at a price equal to the principal amount plus accrued interest. Interest on the 2016 Convertible Debentures is payable semi-annually on June 30 and December 31.

On April 4, 2013, the REIT assumed all of Primaris’s outstanding convertible debentures. The 2014<sup>b</sup> and 2015 Convertible Debentures were fully redeemed in 2013. The remaining balance of the Series H convertible unsecured subordinated debentures (the “2018 Convertible Debentures”) could not be redeemed by the REIT on or before November 30, 2014. Thereafter, but up to November 30, 2016, the 2018 Convertible Debentures may be redeemed, in whole or in part, only if the current market price of a Stapled Unit is at least 125% of the conversion price. On or after December 1, 2016 and prior to the maturity date, the 2018 Convertible Debentures may be redeemed by the REIT, in whole or in part, at a price equal to the principal amount plus accrued interest. Interest on the 2018 Convertible Debentures is payable semi-annually on May 31 and November 30.

Each Convertible Debenture is convertible into freely tradeable Stapled Units at the holder’s option at (i) any time prior to the maturity date and (ii) the business day immediately preceding the date specified by the REIT for redemption of the Convertible Debentures, at a specified conversion price, subject to adjustment upon the occurrence of certain events in accordance with the indenture governing the Convertible Debentures.

On redemption or maturity of the Convertible Debentures, the REIT may, at its option and subject to certain conditions, elect to satisfy its obligation to repay all or any portion of the principal amount of the Convertible Debentures that are to be redeemed or that are to mature through the issuance of Stapled Units by way of issuing (or causing it to be issued) a variable number of Stapled Units equal to the principal amount of the Convertible Debentures that are to be redeemed or that are to mature divided by 95% of the then fair market value of the Stapled Units.

- (b) *Series B Senior Debentures, Series C Senior Debentures, Series D Senior Debentures, Series E Senior Debentures, Series F Senior Debentures, Series G Senior Debentures, Series I Senior Debentures, Series J Senior Debentures and Series K Senior Debentures (collectively, the “Senior Debentures”):*

In February 2015, the REIT issued U.S. \$125,000 Series J floating rate unsecured senior debentures (the “Series J Senior Debentures”). The interest on the Series J Senior Debentures is payable quarterly on February 9, May 9, August 9 and November 9. On issuance, the REIT recorded a liability of U.S. \$124,525, net of issue costs of U.S. \$475.

In July 2015, the REIT issued \$200,000 Series K floating rate unsecured senior debentures (the “Series K Senior Debentures”). The interest on the Series K Senior Debentures is payable quarterly on March 1, June 1, September 1 and December 1. On issuance, the REIT recorded a liability of \$198,897, net of issue costs of \$1,103.



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### 11. Debentures payable (continued):

Interest expense is recorded as a charge to net income and is calculated at an effective interest rate with the difference between the coupon rate and the effective rate being credited to the carrying value such that, at maturity, the carrying value is equal to the face value of the then outstanding Senior Debentures.

At its option, the REIT may redeem any of the Senior Debentures, in whole at any time, or in part from time to time, prior to maturity on payment of a redemption price equal to the greater of (i) the Canada Yield Price as defined in the relevant supplemental trust indenture and (ii) par, together in each case with accrued and unpaid interest to the date fixed for redemption. The REIT will give notice of any redemption at least 30 days but not more than 60 days before the date fixed for redemption. Where less than all of any Senior Debentures are to be redeemed pursuant to their terms, the Senior Debentures to be so redeemed will be redeemed on a pro rata basis according to the principal amount of Senior Debentures registered in the respective name of each holder of Senior Debentures or in such other manner as the indenture trustee may consider equitable.

The Senior Debentures are rated BBB (high) with a Stable trend by DBRS Limited.

(c) A summary of the carrying value of debentures payable is as follows:

	<i>Note</i>	<b>December 31 2015</b>	December 31 2014
<b>Convertible Debentures</b>			
Carrying value, beginning of year		\$ 261,438	\$ 259,895
Conversion - 2018 Convertible Debentures		(5)	(16)
(Gain) loss on change in fair value	21	(8,084)	1,559
Carrying value, end of year		<b>253,349</b>	261,438
<b>Senior Debentures</b>			
Carrying value, beginning of year		1,274,400	1,272,235
Repaid - Series A Senior Debentures		(115,000)	-
Repaid - Series H Senior Debentures		(235,000)	-
Issued - Series J Senior Debentures		171,855	-
Issued - Series K Senior Debentures		198,897	-
Accretion adjustment		2,268	2,165
Carrying value, end of year		<b>1,297,420</b>	1,274,400
		<b>\$ 1,550,769</b>	\$ 1,535,838

### 12. Exchangeable units:

Certain of the REIT's subsidiaries have issued exchangeable units which are puttable instruments where the REIT has a contractual obligation to issue Stapled Units to participating vendors upon redemption. These puttable instruments are classified as a liability under IFRS and are measured at fair value through net income (note 21). Fair value is determined by using the quoted prices for the Stapled Units as the exchangeable units are exchangeable into 16,663,816 (December 31, 2014 - 16,663,816) Stapled Units at the option of the holder. The quoted price as at December 31, 2015 was \$20.05 (December 31, 2014 - \$21.73).

Holders of the exchangeable units are entitled to receive distributions on a per unit amount equal to a per Stapled Unit amount provided to holders of Stapled Units.

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### 12. Exchangeable units (continued):

The REIT and Finance Trust have entered into various exchange and support agreements that provide, among other things, the mechanics whereby exchangeable units may be exchanged for Stapled Units.

The following number of exchangeable units are issued and outstanding:

As at January 1, 2014:	17,403,119
Class B LP units of H&R Portfolio Limited Partnership, a subsidiary partnership of the REIT, exchanged for Stapled Units	(739,303)
As at December 31, 2014 and December 31, 2015	16,663,816

A subsidiary of the REIT holds 433,174 Stapled Units to mirror these exchangeable units. Therefore, when these Class B LP units are exchanged for Stapled Units, the number of outstanding Stapled Units will not increase.

### 13. Loan payable:

In February 2016, the REIT repaid the remainder of the loan payable to ECHO for a total cash payment of U.S. \$60,780. The amount presented on the statements of financial position as at December 31, 2015 represents the loan payable amount net of the REIT's interest in the equity accounted investment in ECHO.

### 14. Bank indebtedness:

The REIT has the following facilities:

- (a) A general unsecured operating facility due on December 18, 2018. The total facility as at December 31, 2015 is \$500,000 (December 31, 2014 - \$300,000) and can be drawn in either Canadian or U.S. dollars. The amount available at December 31, 2015, after taking into account the bank indebtedness drawn of \$165,499 (December 31, 2014 - \$71,360), outstanding letters of credit and other items, is \$272,160 (December 31, 2014 - \$173,313). The Canadian dollar bank indebtedness bears interest at rates approximating the prime rate of a Canadian chartered bank. At December 31, 2015, the Canadian prime interest rate was 2.70% (December 31, 2014 - 3.00%) per annum.
- (b) A general operating facility which is secured by fixed charges over certain investment properties due on December 18, 2017. The total facility as at December 31, 2015 is \$300,000 (December 31, 2014 - \$200,000). The amount available at December 31, 2015, after taking into account the bank indebtedness drawn of \$138,020 (December 31, 2014 - \$37,653) and the outstanding letters of credit is \$161,646 (December 31, 2014 - \$161,792). The bank indebtedness bears interest at a rate approximating the prime rate of a Canadian chartered bank.
- (c) A general operating facility which is secured by fixed charges over certain investment properties due on September 30, 2017. The total facility as at December 31, 2015 is \$3,514 (December 31, 2014 - \$14,850). The amount available at December 31, 2015, after taking into account the bank indebtedness drawn of \$3,514 (December 31, 2014 - \$14,850), is nil (December 31, 2014 - nil).
- (d) A general operating facility which is secured by fixed charges over certain investment properties due on February 19, 2017. The total facility as at December 31, 2015 is \$15,000 (December 31, 2014 - not applicable) and can be drawn in either Canadian or U.S. dollars. The amount available at December 31, 2015, after taking into account the bank indebtedness drawn of \$14,000 (December 31, 2014 - not applicable), is \$1,000 (December 31, 2014 - not applicable).

Included in bank indebtedness at December 31, 2015 are U.S. dollar denominated amounts of \$115,500 (December 31, 2014 - U.S. \$51,269). The Canadian equivalents of these amounts are \$159,390 (December 31, 2014 - \$59,472).

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### 15. Accounts payable and accrued liabilities:

	<i>Note</i>	December 31 2015	December 31 2014
Current:			
Other accounts payable and accrued liabilities		\$ 117,181	\$ 98,671
Mortgage interest payable		11,561	11,298
Prepaid rent		22,883	17,667
Unit-based compensation payable	17(a)(ii)	7,960	9,035
Debenture interest payable		13,207	16,563
Derivative instruments	16	-	146
Non-current:			
Security deposits		4,038	3,739
		<b>\$ 176,830</b>	<b>\$ 157,119</b>

### 16. Derivative instruments:

		Fair value (liability) asset *		Net gain on derivative contracts**	
		December 31 2015	December 31 2014	December 31 2015	December 31 2014
Foreign exchange forward contracts	(a)	\$ -	\$ -	\$ -	\$ 126
Mortgage interest rate swap	(b)	-	(146)	161	263
		<b>\$ -</b>	<b>\$ (146)</b>	<b>\$ 161</b>	<b>\$ 389</b>

(a) The REIT entered into foreign exchange forward contracts and swaps with Canadian chartered banks effectively locking the REIT's rate to exchange U.S. dollars into Canadian dollars. These arrangements were settled in 2014.

(b) The REIT entered into an interest rate swap on one U.S. mortgage. This swap was settled in 2015.

\* Derivative instruments in asset and liability positions are not presented on a net basis. Derivative instruments in an asset position are recorded in other assets and derivative instruments in a liability position are recorded in accounts payable and accrued liabilities.

\*\* Excludes amounts relating to foreign exchange which have been recorded in accumulated other comprehensive income (note 18).

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### 17. Unitholders' equity:

The REIT is an unincorporated open-ended trust. The beneficial interests in the REIT are divided into two classes of trust units: units of the REIT and special voting units. Each unit of the REIT and special voting unit carries a single vote at any meeting of unitholders. Holders of special voting units do not have any additional rights than those of holders of units of the REIT. The aggregate number of units of the REIT which the REIT may issue is unlimited and the aggregate number of special voting units which the REIT may issue is 9,500,000. The units of the REIT carry the right to participate pro rata in any distributions. As at December 31, 2015 9,500,000 special voting units are issued and outstanding (December 31, 2014 - 9,500,000 special voting units).

Finance Trust is an unincorporated investment trust. The beneficial interests in Finance 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 units of the REIT are stapled with the units of Finance Trust effective October 1, 2008. These Stapled Units are listed and posted for trading on the TSX. The REIT has entered into a support agreement ("Support Agreement") with Finance Trust to coordinate the issuance of Stapled Units under various arrangements (note 17(c)).

The units of the Trusts are freely transferable and, other than as disclosed herein, the trustees shall not impose any restriction on the transfer of units. Provided that an event of uncoupling ("Event of Uncoupling") has not occurred: (a) each unit of the REIT may only be transferred together with a unit of Finance Trust; (b) no unit may be issued by the REIT to any person unless: (i) a unit of Finance Trust is simultaneously issued to such person, or (ii) the REIT has arranged that units will be consolidated (subject to any applicable regulatory approval) immediately after such issuance, such that each holder of a REIT unit will hold an equal number of Finance Trust units and units of the REIT immediately following such consolidation; and (c) a unitholder may require the REIT to redeem any particular number of units only if it also requires, at the same time, and in accordance with the provisions of the Finance Trust Declaration of Trust, Finance Trust to redeem that same number of units of Finance Trust.

An Event of Uncoupling shall occur only: (a) in the event that unitholders of the REIT vote in favour of the uncoupling of units of Finance Trust and units of the REIT such that the two securities will trade separately; or (b) at the sole discretion of the trustees of Finance Trust, but only in the event of the bankruptcy, insolvency, winding-up or reorganization (under an applicable law relating to insolvency) of the REIT or U.S. Holdco or the taking of corporate action by the REIT or U.S. Holdco in furtherance of any such action or the admitting in writing by the REIT or U.S. Holdco of its inability to pay its debts generally as they become due. The trustees of the Trusts shall use all reasonable efforts to obtain and maintain a listing for the units of the REIT and, unless an Event of Uncoupling has occurred, the Stapled Units, on one or more stock exchanges in Canada.

The unitholders have the right to require the Trusts to redeem their units on demand. Provided that no Event of Uncoupling has occurred, unitholders who tender their units of one of the Trusts for redemption will also be required to tender for redemption corresponding units of the other Trust in accordance with the provisions of the respective Declarations of Trust. Upon the tender of their units for redemption, 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 the applicable Declaration of Trust.

Upon valid tender for redemption of each unit of the REIT, the unitholder is entitled to receive a price per unit of the REIT as determined by a formula based on the market price of Stapled Units less an amount based on the principal amount of U.S. Holdco Notes owing per outstanding unit of Finance Trust. The redemption price payable by the REIT will be satisfied by way of a cash payment to the unitholder or, in certain circumstances, including where such payment would cause the REIT's monthly cash redemption obligations to exceed \$50 (subject to adjustment in certain circumstances or waiver by the trustees) an *in specie* distribution of notes of H&R Portfolio LP Trust (a subsidiary of the REIT).

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### 17. Unitholders' equity (continued):

Upon valid tender for redemption of each unit of Finance Trust, the unitholder is entitled to receive, except as provided below, a price per unit payable in cash equal to the Canadian dollar equivalent of the outstanding principal amount of the U.S. Holdco Notes as of the redemption date, divided by the total number of Finance Trust units issued and outstanding immediately prior to the redemption date. In certain circumstances, including where such payment would cause Finance Trust's monthly cash redemption obligations to exceed \$50 (subject to adjustment in certain circumstances or waiver by the trustees) the redemption price per Finance Trust unit being redeemed, to which a redeeming unitholder is entitled shall be the fair market value of the Finance Trust units being redeemed, as determined by the trustees, which shall be payable by way of delivery of U.S. Holdco Notes.

The following number of Stapled Units are issued and outstanding:

As at January 1, 2014	269,974,773
Issued under the Distribution Reinvestment Plan and Unit Purchase Plan (the "DRIP")	3,932,252
Options exercised	193,700
2018 Convertible Debentures converted into Stapled Units	606
Exchangeable units exchanged into Stapled Units	739,303
Repurchased through normal course issuer bid	(67,300)
<b>As at December 31, 2014</b>	<b>274,773,334</b>
<b>Issued under the DRIP</b>	<b>4,943,820</b>
<b>Options exercised</b>	<b>72,167</b>
<b>2018 Convertible Debentures converted into Stapled Units</b>	<b>202</b>
<b>Repurchased through normal course issuer bid</b>	<b>(179,400)</b>
<b>As at December 31, 2015</b>	<b>279,610,123</b>

The weighted average number of basic Stapled Units for the year ended December 31, 2015 is 276,795,506 (December 31, 2014 - 272,172,222).

#### (a) *Unit-based compensation:*

In order to provide long-term compensation to the REIT's trustees, officers, employees and consultants, there may be grants of options and incentive units, which are each subject to certain restrictions.

#### (i) *Unit option plan:*

As at December 31, 2015, a maximum of 28,000,000 (December 31, 2014 - 28,000,000) options to purchase Stapled Units were authorized to be issued, of which 14,056,429 options (December 31, 2014 - 12,428,066 options) have been granted, 343,422 options (December 31, 2014 - 66,665 options) have expired and 14,286,993 options (December 31, 2014 - 15,638,599 options) remain to be granted. The exercise price of each option approximated the quoted price of the Stapled Units on the date of grant and shall be increased by the amount, if any, by which the fair quoted value of one Finance Trust unit at the time of exercise of such option exceeds the fair quoted value of one Finance Trust unit at the time of grant of such option. The options vest at 33.3% per year from the grant date, will be fully vested after three years, and expire ten years after the date of the grant. During the year ended December 31, 2015, 1,628,363 options were granted (year ended December 31, 2014 - 935,946 options).

As described in note 2(h), the REIT's unit option plan is considered a cash-settled plan with the fair value of the Stapled Units underlying option grants recorded as a liability on the combined statements of financial position. The liability is released to equity when the options are converted to Stapled Units. The fair value of the options is remeasured at each reporting period using the Black-Scholes model. Measurement inputs include Stapled Unit price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected distributions, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in measuring fair value.

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### 17. Unitholders' equity (continued):

A summary of the status of the unit option plan and the changes during the respective periods are as follows:

	December 31, 2015		December 31, 2014	
	Units	Weighted average exercise price	Units	Weighted average exercise price
Outstanding, beginning of year	5,295,567	\$ 21.41	4,553,321	\$ 21.04
Granted	1,628,363	21.94	935,946	22.17
Exercised	(72,167)	15.74	(193,700)	16.42
Expired	(276,757)	22.02	-	-
Outstanding, end of year	6,575,006	\$ 21.57	5,295,567	\$ 21.41
Options exercisable, end of year	4,001,868	\$ 21.18	2,906,308	\$ 20.37

The options outstanding at December 31, 2015 are exercisable at varying prices ranging from \$9.30 to \$23.18 (December 31, 2014 - \$9.30 to \$23.18) with a weighted average remaining life of 7.0 years (December 31, 2014 - 7.4 years). The vested options are exercisable at varying prices ranging from \$9.30 to \$23.18 (December 31, 2014 - \$9.30 to \$23.18) with a weighted average remaining life of 6.0 years (December 31, 2014 - 6.5 years).

#### (ii) Incentive unit plan:

As at December 31, 2015, a maximum of 5,000,000 (December 31, 2014 - 5,000,000) incentive units exchangeable into Stapled Units were authorized to be issued under the incentive unit plan, of which 314,655 incentive units (December 31, 2014 - 162,332 incentive units) have been granted, 11,665 incentive units (December 31, 2014 - nil incentive units) have expired and 4,697,010 incentive units (December 31, 2014 - 4,837,668 incentive units) remain to be granted.

Incentive units are recognized based on the grant date fair value. The awards will be satisfied either in Stapled Units issued from treasury or cash, as determined by the REIT's trustees, with the result that the awards are classified as cash-settled unit-based payments and presented as liabilities. 100% of the incentive units vest on the third anniversary of the grant date and are subject to forfeiture until the recipients of the awards have held office with or provided services to the REIT for a specified period of time. The incentive units may, if specified at the time of grant, accrue cash distributions during the vesting period and accrued distributions will be paid when the incentive units vest. These incentive units are recognized as liabilities, which are indexed to changes in fair value of the Stapled Units. During the year ended December 31, 2015, 152,323 incentive units were granted (year ended December 31, 2014 - 162,332 incentive units).

A summary of the status of the incentive unit plan and the changes during the respective periods are as follows:

	December 31 2015	December 31 2014
	Units	Units
Outstanding, beginning of year	162,332	-
Granted	152,323	162,332
Expired	(11,665)	-
Outstanding, end of year	302,990	162,332

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### 17. Unitholders' equity (continued):

The fair value of the vested unit options and incentive units payable are as follows:

	December 31 2015	December 31 2014
Options	\$ 4,594	\$ 7,746
Incentive units	3,366	1,289
	<b>\$ 7,960</b>	<b>\$ 9,035</b>

Unit-based compensation expense (benefit) included in trust expenses is as follows:

	2015	2014
Options	\$ (2,774)	\$ 2,560
Incentive units	2,077	1,289
	<b>\$ (697)</b>	<b>\$ 3,849</b>

#### (b) Distributions:

Under the REIT's Declaration of Trust, the total amount of income of the REIT to be distributed to unitholders for each calendar month shall be subject to the discretion of the trustees, however, the total income distributed shall not be less than the amount necessary to ensure that the REIT will not be liable to pay income tax under Part I of the Tax Act for any year. The trustees have the discretion to pay the distributions in cash or Stapled Units. For the year ended December 31, 2015, the REIT declared per unit distributions of \$1.23 (December 31, 2014 - \$1.24).

Pursuant to Finance Trust's Declaration of Trust, unitholders of Finance Trust are entitled to receive all of the Distributable Cash of Finance Trust, as defined in the Declaration of Trust. Distributable Cash means, subject to certain exceptions, all amounts received by Finance Trust less certain costs, expenses or other amounts payable by Finance Trust, and less any amounts which, in the opinion of the trustees, may reasonably be considered to be necessary to provide for the payment of any costs or expenditures that have been or will be incurred in the activities and operations of Finance Trust and to provide for payment of any tax liability of Finance Trust. Finance Trust paid per unit distributions of \$0.12 for the year ended December 31, 2015 (December 31, 2014 - \$0.11).

The details of the distributions are as follows:

	2015	2014
Cash distributions to unitholders	\$ 267,650	\$ 281,444
Unit distributions (issued under the DRIP)	105,422	85,358
	<b>\$ 373,072</b>	<b>\$ 366,802</b>

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### 17. Unitholders' equity (continued):

(c) *Support agreement:*

Pursuant to provisions of the Declarations of Trust for Finance Trust and the REIT, at all times, each REIT unit must be stapled to a Finance Trust unit (and each Finance Trust unit must be stapled to a REIT unit) unless there is an Event of Uncoupling. As part of the Plan of Arrangement, the REIT and Finance Trust entered into the Support Agreement which provided, among other things, for the coordination of the declaration and payment of all distributions so as to provide for simultaneous record dates and payment dates; for coordination so as to permit the REIT to perform its obligations pursuant to the REIT's Declaration of Trust, Unit Option Plan, DRIP and Unitholder Rights Plan; for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable and permit the REIT to perform its obligations arising under any security issued by the REIT (including securities convertible, exercisable or exchangeable into Stapled Units); for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable the REIT to perform its obligations or exercise its rights under its convertible debentures; and for Finance Trust to take all such actions and do all such things as are necessary or desirable to issue Finance Trust units simultaneously (or as close to simultaneously as possible) with the issue of REIT units and to otherwise ensure at all times that each holder of a particular number of REIT units holds an equal number of Finance Trust units, including participating in and cooperating with any public or private distribution of Stapled Units by, among other things, signing prospectuses or other offering documents.

In the event that the REIT issues additional REIT units, pursuant to the Support Agreement, the REIT and Finance Trust will co-ordinate so as to ensure that each subscriber receives both REIT units and Finance Trust units, which shall trade together as Stapled Units. Prior to such event, the REIT shall provide notice to Finance Trust to cause Finance Trust to issue and deliver the requisite number of Finance Trust units to be received by and issued to, or to the order of, each subscriber as the REIT directs. In consideration of the issuance and delivery of each such Finance Trust unit, the REIT (on behalf of the purchaser) or the purchaser, as the case may be, shall pay (or arrange for the payment of) a purchase price equal to the fair market value (as determined by Finance Trust in consultation with the REIT) of each such Finance Trust unit at the time of such issuance. The remainder of the subscription price for Stapled Units shall be allocated to the issuance of REIT units by the REIT.

(d) *Short form base shelf prospectus:*

On April 30, 2015, the Trusts filed a short form base shelf prospectus, qualifying the Trusts to offer and issue Stapled Units and the REIT to offer and issue the following securities: (i) preferred units; (ii) unsecured debt securities; (iii) subscription receipts exchangeable for Stapled Units and/or other securities of the REIT; (iv) warrants exercisable to acquire Stapled Units and/or other securities of the REIT; and (v) securities comprised of more than one of Stapled Units, preferred units, debt securities, subscription receipts and/or warrants offered together as a unit, or any combination thereof having an offer price of up to \$2,000,000 in aggregate (or the equivalent thereof, at the date of issue, in any other currency or currencies, as the case may be) at any time during the 25-month period that the short form base shelf prospectus (including any amendments) remains valid. As at December 31, 2015, \$200,000 of Senior Debentures have been issued under the short form base shelf prospectus.

(e) *Normal course issuer bid:*

On June 4, 2015, the Trusts received approval from the TSX for the renewal of its normal course issuer bid ("NCIB"), allowing the Trusts to purchase for cancellation up to a maximum of 5,000,000 Stapled Units on the open market until the earlier of June 8, 2016 or the date on which the Trusts have purchased the maximum number of Stapled Units permitted under the NCIB. During the year ended December 31, 2015, the Trusts purchased and cancelled 179,400 Stapled Units at a weighted average price of \$21.94 per unit, for a total cost of \$3,937. During the year ended December 31, 2014, under a previous NCIB, the Trusts purchased and cancelled 67,300 Stapled Units at a weighted average price of \$21.58 per unit, for a total cost of \$1,452.



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### 18. Accumulated other comprehensive income:

	Cash flow hedges	Foreign operations	Total
Balance as at January 1, 2014	\$ (768)	\$ 29,359	\$ 28,591
Transfer of realized loss on cash flow hedges to net income	395	-	395
Unrealized gain on translation of U.S. denominated foreign operation	-	90,140	90,140
Balance as at December 31, 2014	(373)	119,499	119,126
<b>Transfer of realized loss on cash flow hedges to net income</b>	<b>31</b>	<b>-</b>	<b>31</b>
<b>Unrealized gain on translation of U.S. denominated foreign operation</b>	<b>-</b>	<b>227,430</b>	<b>227,430</b>
<b>Balance as at December 31, 2015</b>	<b>\$ (342)</b>	<b>\$ 346,929</b>	<b>\$ 346,587</b>

### 19. Rentals from investment properties:

	2015	2014
Rental income	\$ 1,174,591	\$ 1,213,351
Straight-lining of contractual rent	15,823	16,177
Rent amortization of tenant inducements	(2,100)	(1,725)
	<b>\$ 1,188,314</b>	<b>\$ 1,227,803</b>

#### *Operating Leases:*

The REIT leases its investment properties under operating leases (note 2(f)). The future minimum lease payments under non-cancellable leases are as follows:

	December 31 2015	December 31 2014
Less than 1 year	\$ 689,438	\$ 677,137
Between 1 and 5 years	2,439,767	2,389,763
More than 5 years	4,265,096	4,294,296
	<b>\$ 7,394,301</b>	<b>\$ 7,361,196</b>

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### 20. Finance cost - operations:

	2015	2014
Contractual interest on mortgages payable	\$204,568	\$ 228,807
Contractual interest on debentures payable	64,715	68,077
Effective interest rate accretion	(4,337)	(4,304)
Bank interest and charges	7,568	9,545
Exchangeable unit distributions	22,496	23,162
	<b>295,010</b>	<b>325,287</b>
Capitalized interest*	-	(1,332)
	<b>\$295,010</b>	<b>\$ 323,955</b>

\* Capitalized interest is determined using the REIT's weighted average rate of borrowings, excluding any borrowings specifically for properties under development (December 31, 2014 – 4.79%). No capitalized interest was recorded for the year ended December 31, 2015.

### 21. Gain (loss) on change in fair value:

	<i>Note</i>	2015	2014
Gain (loss) on fair value of convertible debentures	11(c)	\$ 8,084	\$ (1,559)
Gain (loss) on fair value of exchangeable units		27,995	(6,859)
Gain on derivative instruments	16	161	389
		<b>\$ 36,240</b>	<b>\$ (8,029)</b>

### 22. Supplemental cash flow information:

The change in other non-cash operating items are as follows:

	2015	2014
Straight-lining of contractual rent	\$ (19,047)	\$ (24,304)
Prepaid expenses and sundry assets	(1,411)	6,526
Accounts receivable	(2,423)	3,134
Accounts payable and accrued liabilities	27,405	(17,178)
	<b>\$ 4,524</b>	<b>\$ (31,822)</b>

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### 22. Supplemental cash flow information (continued):

The following non-cash amounts have been excluded from operating, investing and financing activities in the combined statements of cash flows:

	Note	2015	2014
Non-cash distributions to unitholders in the form of DRIP units	17(b)	\$ 105,422	\$ 85,358
Non-cash conversion of convertible debentures	11(c)	5	16
(Increase) decrease in accounts payable on redevelopment		(2,514)	3,922
Capitalized interest	20	-	1,332
Non-cash adjustment to proceeds on options exercised		378	1,127
Non-cash release of mortgage payable on disposition of investment properties		(77,295)	(325,975)
Increase in accounts payable included in finance cost - operations		(4,841)	(2,020)
Mortgages receivable from the sale of investment properties		37,135	69,981
Exchangeable units exchanged for Stapled Units		-	17,181
Acquisition of investment property through assumption of mortgage payable, net of mark-to-market adjustment		45,246	-

### 23. Capital risk management:

The REIT's primary objectives when managing capital are:

- to provide unitholders with stable and growing distributions generated by revenue it derives from investments in real estate assets; and
- to maximize unit value through the ongoing active management of the REIT's assets, the acquisition of additional properties and the development and construction of projects which are pre-leased to creditworthy tenants.

The REIT considers its capital to be its unitholders' equity, exchangeable units, mortgages payable, debentures payable, loan payable and bank indebtedness. As long as the REIT complies with its investment and debt restrictions set out in its Declaration of Trust, it is free to determine the appropriate level of capital in context with its cash flow requirements, overall business risks and potential business opportunities. As a result of this, the REIT will make adjustments to its capital based on its investment strategies and changes in economic conditions.

The REIT's level of indebtedness is subject to the limitations set out in its Declaration of Trust. The REIT is limited to a total indebtedness to total assets ratio of 65% (for this purpose "indebtedness" excludes, among other things, Convertible Debentures, and U.S. Holdco notes payable to Finance Trust). As at December 31, 2015, this ratio was 44.4% (December 31, 2014 - 44.4%). Management uses this ratio as a key indicator in managing the REIT's capital.

In addition to the above key ratio, the REIT's general operating facilities (note 14) and debentures payable (note 11) collectively have the following covenants calculated as defined within these agreements:

	Covenant	2015	2014
(a) Maximum indebtedness to gross book value	65%	48.4%	44.4%
(b) Minimum interest coverage ratio	1.65 : 1	2.84 : 1	2.65 : 1
(c) Minimum unitholders' equity	\$3,000,000	\$6,824,920	\$6,527,668
(d) Maximum secured indebtedness to gross book value	40%	36.4%	N/A
(e) Minimum fixed charge coverage ratio	1.50 : 1	1.78 : 1	N/A
(f) Minimum adjusted unencumbered investment properties ratio	1.40 : 1	1.77 : 1	N/A

Certain of the REIT's mortgage providers also have minimum limits on debt-to-service coverage ratios ranging from 1.10 to 1.50 as at December 31, 2015 and December 31, 2014. The REIT monitors these ratios and is in compliance with such external requirements.

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### 24. Risk management:

(a) *Credit risk:*

The REIT is exposed to credit risk in the event that borrowers default on the repayment of the amounts owing to the REIT. Management mitigates this risk by ensuring adequate security has been provided in support of mortgages receivable.

The REIT is exposed to credit risk as an owner of investment properties in that tenants may become unable to pay the contracted rent. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on significant tenants. Management has diversified the REIT's holdings so that it owns several categories of properties and acquires investment 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 REIT's cash flow. The only tenants which individually account for more than 5% of the rentals from investment properties of the REIT are Encana Corporation and Bell Canada. Both of these companies have a public debt rating that is rated with at least a BBB Stable rating by a recognized rating agency.

The REIT's exposure to credit risk is as follows:

	<i>Note</i>	<b>December 31 2015</b>	December 31 2014
Mortgages receivable	6	<b>\$ 103,353</b>	\$ 79,922
Accounts receivable	8	<b>14,686</b>	12,263
		<b>\$ 118,039</b>	\$ 92,185

(b) *Liquidity risk:*

The Trusts are subject to liquidity risk whereby it may not be able to refinance or pay its debt obligations when they become due.

The Trusts manage liquidity risk by:

- Assuring appropriate lines of credit available are available. As at December 31, 2015 the combined amounts available under its general operating facilities is \$434,806 (note 14);
- Maintaining a large unencumbered asset pool. As at December 31, 2015, there are 85 unencumbered properties with a fair value of approximately \$2,064,000;
- Entering into long-term mortgages on most of the REIT's properties, whereby a significant amount of principal has been repaid at the time of maturity which enables the REIT to refinance the debt; and
- Structuring its financing so as to stagger the maturities of its debt, thereby minimizing exposure to liquidity risk in any one year (notes 10, 11 and 14).

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### 24. Risk management (continued):

Management monitors its liquidity risk through review of financial covenants contained in general operating facilities, debt agreements and in accordance with the REIT's Declaration of Trust.

The Trusts' liquidity risk is as follows:

	Note	2016	Thereafter	Total
Mortgages payable*	10	\$ 381,144	\$ 4,146,848	\$ 4,527,992
Debentures payable*	11	255,000	1,296,548	1,551,548
Loan payable*	13	55,717	-	55,717
Bank indebtedness*	14	-	321,033	321,033
Accounts payable and accrued liabilities	15, 17(a)(ii)	164,832	7,404	172,236
		\$ 856,693	\$ 5,771,833	\$ 6,628,526

\* Amounts in the above table only include the principal amount for each debt obligation.

#### (c) Market risk:

The Trusts are subject to currency risk and interest rate risk. The Trusts' objective is to manage and control market risk exposure within acceptable parameters, while optimizing the return on risk.

#### (i) Currency risk:

A portion of the REIT's properties are located in the United States, resulting in the REIT being subject to foreign currency fluctuations which may impact its financial position and results. In order to mitigate the risk, the REIT's debt on these properties is also held in U.S. dollars to act as a natural hedge.

A \$0.10 weakening of the U.S. dollar against the average Canadian dollar exchange rate of \$1.28 for the year ended December 31, 2015 (December 31, 2014 - \$1.10) as well as the Canadian dollar exchange rate as at December 31, 2015 of \$1.38 (December 31, 2014 - \$1.16) would have decreased other comprehensive income (loss) by approximately \$101,900 (December 31, 2014 - \$86,600) and decreased net income by approximately \$7,100 (December 31, 2014 - \$9,300). This analysis assumes that all other variables, in particular interest rates, remain constant (a \$0.10 weakening of the Canadian dollar against the U.S. dollar at December 31, 2014 would have had the equal but opposite effect).

#### (ii) Interest rate risk:

The Trusts are exposed to interest rate risk on its borrowings. It minimizes this risk by obtaining long-term fixed interest rate debt. At December 31, 2015, the percentage of fixed rate debt to total debt was 86.8% (December 31, 2014 - 96.4%). Therefore, a change in interest rates at the reporting date would not have a material impact on net income as the majority of the Trust's borrowings are through fixed rate instruments.

The bank indebtedness is subject to variable interest rates. An increase in interest rates of 100 basis points for the year ended December 31, 2015 would have decreased net income by approximately \$1,800 (December 31, 2014 - \$1,300). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

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### 24. Risk management (continued):

The floating rate senior debentures are subject to variable interest rates. An increase in interest rates of 100 basis points for the year ended December 31, 2015 would have decreased net income by approximately \$2,900 (December 31, 2014 - \$600). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

The floating rate mortgages payable are subject to variable interest rates. An increase in interest rates of 100 basis points for the year ended December 31, 2015 would have decreased net income by approximately \$500 (December 31, 2014 - nil). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

(d) *Fair values:*

(i) *Financial assets and liabilities carried at amortized cost:*

The fair values of the Trusts' 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 receivable 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 receivable at December 31, 2015 has been estimated at \$105,183 (December 31, 2014 - \$82,065) compared with the carrying value of \$103,353 (December 31, 2014 - \$79,922).

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, 2015 has been estimated at \$4,726,118 (December 31, 2014 - \$4,566,432) compared with the carrying value of \$4,537,278 (December 31, 2014 - \$4,318,136).

The fair value of the Senior Debentures payable has been measured based on the ask price of each series of Senior Debenture similar terms and credit risks. Based on these assumptions, the fair value of the Senior Debentures payable at December 31, 2015 has been estimated at \$1,351,590 (December 31, 2014 - \$1,349,227) compared with the carrying value of \$1,297,420 (December 31, 2014 - \$1,274,400).

The fair value of the loan payable to ECHO approximates the carrying value as the loan payable was repaid in February 2016.

(ii) *Assets and Liabilities carried at fair value:*

Assets and liabilities measured at fair value in the combined statements of financial position, or disclosed in the notes to the financial statements, are categorized using a fair value hierarchy that reflects the significance of the inputs used in determining the fair values:

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### 24. Risk management (continued):

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2015	Note	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value</b>					
Investment properties	3	\$ -	\$ -	\$12,576,075	\$12,576,075
Properties under development	4	-	-	97,504	97,504
<b>Assets for which fair values are disclosed</b>					
Mortgages receivable	24(d)(i)	-	-	105,183	105,183
		-	-	12,778,762	12,778,762
<b>Liabilities measured at fair value</b>					
Convertible debentures	11	(253,349)	-	-	(253,349)
Exchangeable units		(334,110)	-	-	(334,110)
<b>Liabilities for which fair values are disclosed</b>					
Mortgages payable	24(d)(i)	-	-	(4,726,118)	(4,726,118)
Senior debentures	24(d)(i)	-	-	(1,351,590)	(1,351,590)
		(587,459)	-	(6,077,708)	(6,665,167)
		\$ (587,459)	\$ -	\$ 6,701,054	\$ 6,113,595

December 31, 2014	Note	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value</b>					
Investment properties	3	\$ -	\$ -	\$ 12,116,983	\$ 12,116,983
Properties under development	4	-	-	105,006	105,006
<b>Assets for which fair values are disclosed</b>					
Mortgages receivable	24(d)(i)	-	-	82,065	82,065
		-	-	12,304,054	12,304,054
<b>Liabilities measured at fair value</b>					
Convertible debentures	11	(261,438)	-	-	(261,438)
Exchangeable units		(362,105)	-	-	(362,105)
Derivative instruments	16	-	(146)	-	(146)
<b>Liabilities for which fair values are disclosed</b>					
Mortgages payable	24(d)(i)	-	-	(4,566,432)	(4,566,432)
Senior debentures	24(d)(i)	-	-	(1,349,227)	(1,349,227)
		(623,543)	(146)	(5,915,659)	(6,539,348)
		\$ (623,543)	\$ (146)	\$ 6,388,395	\$ 5,764,706

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### 25. Related party transactions:

Effective July 1, 2013, the REIT entered into an agreement with the former property manager of the REIT for it to provide specified services to the REIT including the cost sharing of premises, certain personnel, equipment and support systems, as well as additional services to be agreed upon from time to time. The agreement will continue until terminated by either party in accordance with the terms of the agreement. During the year ended December 31, 2015, the REIT incurred costs of \$1,515 (December 31, 2014 - \$1,497) under this agreement.

The REIT leases space to companies partially owned by family members of the CEO. The rental income earned for the year ended December 31, 2015 is \$1,609 (December 31, 2014 - \$1,488).

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

The REIT has interests in various investment properties through joint arrangements and investments in associates. Generally, the REIT provides asset and property management services to co-owners, partners and third parties for which it earns market-based fees. Transactions subsequent to the formation of a co-ownership that are not contemplated by the co-ownership agreements are considered to be related party transactions for financial statement purposes.

Key management personnel compensation:

	2015	2014
Short-term employee salaries and benefits	\$ 4,913	\$ 5,024
Employee unit-based compensation	(1,038)	2,695
	<b>\$ 3,875</b>	<b>\$ 7,719</b>



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### 26. Segmented disclosures:

#### (i) Operating segments:

The Trusts have six operating segments as follows:

December 31, 2015	Office	Primaris	H&R Retail	ECHO	Industrial	Residential	Total
Number of investment properties	39	31	131	205	103	8	517
Real estate assets:							
Investment properties	\$ 7,043,480	\$ 3,205,150	\$ 1,621,292	\$ 734,188	\$ 1,064,535	\$ 422,791	\$ 14,091,436
Properties under development	-	-	-	18,940	97,504	207,554	323,998
	7,043,480	3,205,150	1,621,292	753,128	1,162,039	630,345	14,415,434
Less: assets classified as held for sale	-	-	-	-	(3,000)	-	(3,000)
Less: Trusts' proportionate share of real estate assets relating to equity accounted investments	(557,500)	-	-	(753,128)	(220,673)	(207,554)	(1,738,855)
	\$ 6,485,980	\$ 3,205,150	\$ 1,621,292	\$ -	\$ 938,366	\$ 422,791	\$ 12,673,579

December 31, 2014	Office	Primaris	H&R Retail	ECHO	Industrial	Residential	Total
Number of investment properties	40	31	134	186	108	2	501
Real estate assets:							
Investment properties	\$ 6,884,729	\$ 3,227,350	\$ 1,546,968	\$ 528,291	\$ 1,315,600	\$ 51,794	\$ 13,554,732
Properties under development	-	-	-	12,952	105,006	93,395	211,353
	6,884,729	3,227,350	1,546,968	541,243	1,420,606	145,189	13,766,085
Less: assets classified as held for sale	-	-	-	-	(296,992)	-	(296,992)
Less: Trusts' proportionate share of real estate assets relating to equity accounted investments	(612,466)	-	-	(541,243)	-	(93,395)	(1,247,104)
	\$ 6,272,263	\$ 3,227,350	\$ 1,546,968	\$ -	\$ 1,123,614	\$ 51,794	\$ 12,221,989

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### 26. Segmented disclosure (continued):

Property operating income by reportable segment for the year ended December 31, 2015 and December 31, 2014 is as follows:

	Office*	Primaris	H&R Retail	ECHO	Industrial	Residential	December 31 2015
Property operating income:							
Rentals from investment properties	\$ 679,174	\$ 309,968	\$ 146,172	\$ 54,772	\$ 103,822	\$ 26,379	\$ 1,320,287
Property operating costs	(242,901)	(130,351)	(32,967)	(10,667)	(25,663)	(12,291)	(454,840)
	436,273	179,617	113,205	44,105	78,159	14,088	865,447
Less: Trusts' proportionate share of property operating income relating to equity accounted investments	(36,389)	-	-	(44,105)	(11,440)	-	(91,934)
	\$ 399,884	\$ 179,617	\$ 113,205	\$ -	\$ 66,719	\$ 14,088	\$ 773,513

	Office*	Primaris	H&R Retail	ECHO	Industrial	Residential	December 31 2014
Property operating income:							
Rentals from investment properties	\$ 668,300	\$ 314,485	\$ 136,765	\$ 41,000	\$ 171,100	\$ 703	\$ 1,332,353
Property operating costs	(247,633)	(130,656)	(30,125)	(8,377)	(45,435)	(405)	(462,631)
	420,667	183,829	106,640	32,623	125,665	298	869,722
Less: Trusts' proportionate share of property operating income relating to equity accounted investments	(33,823)	-	-	(32,623)	-	-	(66,446)
	\$ 386,844	\$ 183,829	\$ 106,640	\$ -	\$ 125,665	\$ 298	\$ 803,276

\* Includes the Trusts' head office and Finance Trust.

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### 26. Segmented disclosure (continued):

#### (ii) Geographic segments:

The Trusts operate in Canada and the United States.

Investment properties and properties under development are attributed to countries based on the location of the properties.

	December 31 2015	December 31 2014
Real estate assets:		
Canada	\$ 10,098,153	\$ 10,611,527
United States	4,317,281	3,154,558
	<b>14,415,434</b>	13,766,085
Less: assets classified as held for sale	(3,000)	(296,992)
Less: Trusts' proportionate share of investment properties and properties under development relating to equity accounted investments	(1,738,855)	(1,247,104)
	<b>\$ 12,673,579</b>	\$ 12,221,989
	<b>2015</b>	<b>2014</b>
Rentals from investment properties:		
Canada	\$ 989,525	\$ 1,062,386
United States	330,762	269,967
	<b>1,320,287</b>	1,332,353
Less: Trusts' proportionate share of rentals relating to equity accounted investments	(131,973)	(104,550)
	<b>\$ 1,188,314</b>	\$ 1,227,803

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### 27. Income tax expense:

	2015	2014
Income tax computed at the Canadian statutory rate of nil applicable to the REIT for 2015 and 2014	\$ -	\$ -
Current U.S. income taxes	2,341	920
Deferred income taxes applicable to U.S. Holdco	32,617	43,704
<b>Income tax expense in the determination of net income</b>	<b>\$ 34,958</b>	<b>\$ 44,624</b>

The Tax Act contains legislation (the "SIFT Rules") affecting the tax treatment of "specified investment flow-through" ("SIFT") trusts. A SIFT includes a publicly-traded trust. Under the SIFT Rules, distributions of certain income by a SIFT are not deductible in computing the SIFT's taxable income, and a SIFT is subject to tax on such income at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. The SIFT Rules do not apply to a publicly-traded trust that qualifies as a real estate investment trust under the Tax Act. The REIT completed the necessary tax restructuring to qualify as a real estate investment trust effective June 30, 2010.

The REIT has certain subsidiaries in the United States that are subject to tax on their taxable income at a rate of approximately 38%. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	December 31 2015	December 31 2014
<b>Deferred tax assets:</b>		
Net operating losses and deferred interest deductions	\$ 84,889	\$ 95,483
Accounts payable and accrued liabilities	2,146	2,101
Derivative instruments	-	56
Other assets	938	218
	<b>87,973</b>	<b>97,858</b>
<b>Deferred tax liabilities:</b>		
Investment properties	254,178	218,397
Equity accounted investments	23,453	9,325
	<b>277,631</b>	<b>227,722</b>
<b>Deferred tax liability</b>	<b>\$ (189,658)</b>	<b>\$ (129,864)</b>

As at December 31, 2015, U.S. Holdco had accumulated net operating losses and deferred interest deductions available for carryforward for U.S. income tax purposes of \$228,687 (December 31, 2014 - \$248,979). The net operating losses will expire between 2030 and 2032. The deferred interest deductions and the deductible temporary differences do not generally expire under current tax legislation.

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### 28. Commitments and contingencies:

- (a) In the normal course of operations, the REIT has issued letters of credit in connection with developments, financings, operations and acquisitions. As at December 31, 2015, the REIT has outstanding letters of credit totalling \$62,675 (December 31, 2014 - \$55,857), including \$18,577 (December 31, 2014 - \$17,781) which has been pledged as security for certain mortgages payable. The letters of credit are secured in the same manner as the bank indebtedness (notes 14(a) and 14(b)).
- (b) The REIT provides guarantees on behalf of third parties, including co-owners. As at December 31, 2015, the REIT issued guarantees amounting to \$269,899 (December 31, 2014 - \$229,048), which expire in 2029 (December 31, 2014 - expire in 2022), relating to the co-owner's share of mortgage liability. In addition, the REIT continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable until such debts are extinguished or the lenders agree to release the REIT's covenants. At December 31, 2015, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is \$146,541 (December 31, 2014 - \$152,185) which expires between 2016 and 2020 (December 31, 2014 - expires between 2016 and 2020). There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in these combined financial statements.

Credit risks arise in the event that these parties default on repayment of their debt since they are guaranteed by the REIT. These credit risks are mitigated as the REIT has recourse under these guarantees in the event of a default by the borrowers, in which case the REIT's claim would be against the underlying real estate investments.

- (c) Under the construction facility agreement for the Long Island City, NY project, the REIT is committed to contribute an additional \$64,374 U.S. to the project prior to drawing on the facility. This committed contribution will be included in the equity accounted investments in associates (note 5) when incurred. After these capital contributions have been made by the REIT, and the funds have been spent by the project, the construction facility will be available to fund the remaining development costs.
- (d) The REIT is involved in litigation and claims in relation to the investment 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 combined financial statements.

## Corporate Information

### H&R REIT Board of Trustees

Thomas J. Hofstedter <sup>(1)</sup>, President and Chief Executive Officer, H&R Real Estate Investment Trust  
Robert Dickson <sup>(1,2,3,4)</sup>, Strategic financial consultant, marketing communications industry  
Edward Gilbert <sup>(1,2,3,4)</sup>, Chief Operating Officer, Firm Capital Mortgage Investment Trust  
Laurence A. Lebovic <sup>(1,2,3,4)</sup>, Chief Executive Officer, Runnymede Development Corporation Ltd.  
Ronald C. Rutman <sup>(1,2,3,4)</sup>, Partner, Zeifman & Company, Chartered Accountants

### H&R Finance Trust Board of Trustees

Thomas J. Hofstedter, President and Chief Executive Officer, H&R Real Estate Investment Trust  
Shimshon (Stephen) Gross <sup>(2)</sup>, President, LRG Holdings Inc.  
Marvin Rubner <sup>(2)</sup>, Manager and Founder, YAD Investments Limited.  
Neil Sigler <sup>(2)</sup>, Vice President, Gold Seal Management Inc.

(1) Investment Committee

(2) Audit Committee

(3) Compensation and Governance Committee

(4) Nominating Committee

### Officers

Thomas J. Hofstedter, President and Chief Executive Officer  
Larry Froom, Chief Financial Officer  
Nathan Uhr, Chief Operating Officer (H&R REIT)  
Pat Sullivan, Chief Operating Officer (Primaris)  
Cheryl Fried, Executive Vice-President, Finance (H&R REIT)  
Blair Kundell, Vice-President, Operations (H&R REIT)  
Jason Birken, Vice-President, Finance (H&R REIT)

**Auditors:** KPMG LLP

**Legal Counsel:** Blake, Cassels & Graydon LLP

**Taxability of Distributions:** The 2015 distributions by H&R REIT were comprised of capital gains (14.0%), other taxable income (38.1%), foreign non-business income (7.3%) and tax deferred return of capital (40.6%). The 2015 distributions by H&R Finance Trust were comprised of foreign non-business income (84.9%) and tax deferred return of capital (15.1%). For a Canadian resident unitholder, only 55.3% of the 2015 distributions on a Stapled Unit are subject to tax when considering these allocations and the non-taxable portion of the capital gains.

**Plan Eligibility:** RRSP, RRIF, DPSP, RESP, RDSP, TFSA

**Stock Exchange Listing:** Stapled Units and debentures of H&R are listed on the Toronto Stock Exchange under the trading symbols HR.UN; HR.DB.D, HR.DB.E and HR.DB.H.

**Unitholder Distribution Reinvestment Plan and Direct Unit Purchase Plan:** Since January 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 distributions of H&R REIT reinvested in additional Stapled Units of H&R at a 3% discount to the weighted average price of the Stapled Units on the TSX for the five trading days (the "Average Market Price") immediately preceding the cash distribution date. The Direct Unit Purchase Plan allows participants to purchase additional Stapled 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 our Registrar and Transfer Agent.

**Registrar and Transfer Agent:** CST Trust Company, P.O. Box 7010, Adelaide Street Postal Station, Toronto, Ontario, Canada M5C 2W9 Telephone: 416-643-5500 within the Toronto area or 1-800-387-0825, Fax: 416-643-5501, E-mail: [inquiries@canstockta.com](mailto:inquiries@canstockta.com), Website: [www.canstockta.com](http://www.canstockta.com).

**Contact Information:** Investors, investment analysts and others seeking financial information should go to our website at [www.hr-reit.com](http://www.hr-reit.com), or e-mail [info@hr-reit.com](mailto:info@hr-reit.com), or call 416-635-7520 and ask for Larry Froom, Chief Financial Officer, or fax 416-398-0040, or write to H&R Real Estate Investment Trust, 3625 Dufferin Street, Suite 500, Toronto, Ontario, Canada, M3K 1N4



**H&R Real Estate Investment Trust and H&R Finance Trust**



**Tortuga Bay, Orlando**



**Publix, Florida**



**Gotham Center, New York**