



**H&R Real Estate Investment Trust
2020 Annual Report**



The Bow, Calgary



Jackson Park, New York

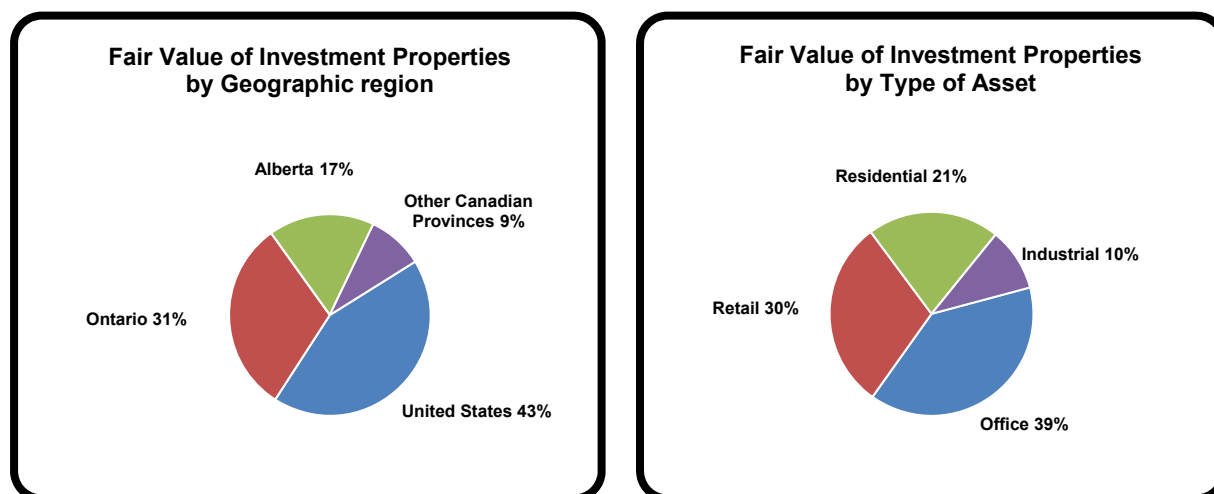


Airport Road, Brampton – Sleep Country

H&R Profile

H&R REIT is one of Canada's largest real estate investment trusts with total assets of approximately \$13.4 billion at December 31, 2020. H&R REIT has ownership interests in a North American portfolio of high quality office, retail, industrial and residential properties comprising over 40 million square feet.

Additional information regarding H&R REIT and H&R Finance Trust is available at www.hr-reit.com and on www.sedar.com.



Primary Objectives

H&R's objective is to maximize NAV per Unit through ongoing active management of H&R's assets, acquisition of additional properties and the development and construction of projects. H&R's strategy to accomplish this objective is to accumulate a diversified portfolio of high-quality investment properties in Canada and the United States leased by creditworthy tenants.

Stability and Growth through Discipline

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



February 11, 2021

Fellow Unitholders,

The past year has been a challenging one on many fronts, and for many people. The COVID-19 pandemic abruptly altered the course of 2020 in March, with broad-based shelter-in-place orders coming in response to the public health threat, dramatically disrupting economic activity. H&R was quick to respond, taking action to protect its tenants, employees and investors. These efforts included social distancing, working from home, the temporary closures of some properties and development projects in accordance with public health recommendations, significantly expanded liquidity through a new \$500 million credit facility, and a reduction to unitholder distributions to protect H&R's balance sheet and enhance capital availability for reinvestment into properties affected by pandemic-related circumstances.

The disruptions experienced in 2020 significantly reduced property market transactions and leasing volumes, as well as general industry activity. Nevertheless, H&R has continued to make progress on the REIT's objectives outlined in recent years, including (i) improving the quality and value of the REITs portfolio, and (ii) improving the profile of an investment in H&R units. Notable accomplishments in 2020 include a significant office lease extension with Hess Corporation at our 845,000 sq.ft. LEED Platinum Hess Tower in Houston; reaching an agreement to sell our 172,000 sq.ft. Culver City office property leased to Sony Pictures; substantial completion of our US\$496 million River Landing development project in central Miami, where we welcomed our first retail and residential tenants in Q4 2020; and reaching our target for board gender diversity, with women now accounting for 25% of our trustees. In addition to board diversity, H&R is proud to have been recognized in 2020 as one of the premier organizations in Canada by the Globe & Mail's *Women Lead Here* initiative. H&R was among 73 of Canada's 500 largest companies to receive this recognition for gender diversity among the executive and senior executive ranks, and one of only 12 Canadian companies with a capitalization of over \$5 billion.

Property Portfolio

Despite the pandemic, in 2020 H&R continued to recycle capital, streamlining and simplifying our portfolio, re-investing into higher growth properties, and improving the profile of an investment in H&R units.

The successful sale of 9050 West Washington Boulevard in Culver City, California marked our most notable disposition of 2020, closing in January 2021. The 172,000 sq.ft. office property leased to Sony Pictures was acquired in 2004 for US\$60 million and was sold for US\$165 million, or approximately US\$960 per sq.ft. The sale not only crystalized a substantial gain and concluded a successful investment; it was also consistent with the REIT's capital allocation and risk management objectives. Similar to the 2019 sale of the REIT's 1.1 million sq.ft. Atrium office and retail complex for \$640 million, H&R once again took advantage of strong market demand for office assets after several years of strong office market performance, and historically high market rents and valuations, reducing near-term office leasing exposure late in the office cycle. Combined with the 10-year lease extensions with Hess in 2020 and Bell in 2019, these sales reduced H&R's lease maturity exposure in its office portfolio to just 6% of GLA through the end of 2023 and 18% through the end of 2025. With a weighted average remaining lease term of more than 12 years, and 85% of office revenues coming from investment grade tenants, H&R's office portfolio continues to be the defensive and resilient core of the REIT's portfolio.



The REIT's largest capital investment in 2020 was advancing the River Landing development to substantial completion, with approximately US\$80 million invested during the year. This unique US\$496 million mixed-use development is finding favourable tenant demand for the multi-residential, retail and office space components, and stands to benefit from the significant boom in population growth and job creation in Miami that has accelerated since the COVID-19 pandemic.

With River Landing being transferred from properties under development to investment properties in Q4 2020 and Q1 2021, development activities have turned to the completion of the individually smaller remaining projects under development, all of which are expected to be completed during 2021. Management is actively advancing subsequent phases of existing development projects, as well as future intensification opportunities including significant multi-residential projects in Toronto and the Greater Vancouver Area.

The REIT's acquisitions, dispositions and development activities continue to enhance unitholder value through fortifying the office portfolio, growing the multi-residential and industrial portfolios, and reducing the REIT's exposure to retail property. High-quality multi-residential property now accounts for 21% of fair value assets, the REIT's core office portfolio accounts for 39% of fair value assets, while retail has declined to 30% and industrial has grown to 10% of assets, respectively. The REIT's investment activities over the past several years have repositioned the portfolio to significantly increase exposure to Sun Belt markets and select gateway cities in the U.S.

Outlook

While 2020 proved much more challenging than anyone expected a year ago, we believe 2021 could provide more opportunities than many might expect today. H&R spent much of 2020 focused on ensuring the stability and durability of the REIT's portfolio and balance sheet. As we look forward to 2021, H&R is very well positioned to take advantage of opportunities, with a strong balance sheet and a portfolio concentrated in large primary markets with strong population and economic growth prospects. Management expects to see attractive investment opportunities in 2021, as the economy and property markets transition from current pandemic conditions to a new post-pandemic normal.

Looking inwardly, management and the board remain committed to pursuing opportunities to increase unitholder value and address the significant discount at which our units trade to the REIT's \$21.92 Net Asset Value Per Unit. The REIT will advance opportunities to simplify its business, including the potential for the creation of new public entities with more narrowly defined mandates consistent with investor preferences, which could also result in a more narrowly focused H&R REIT.

Consideration of opportunities to simplify the REIT's structure began in earnest in 2019, and while progress was slowed by the pandemic, they remain a priority. Once further clarity regarding these opportunities is available, the board and management expect to be in a position to revisit the topics of distributions, unit repurchases and other strategic opportunities. Management, members of the board and their families collectively own more than \$400 million of equity in H&R REIT, providing strong alignment with unitholders in pursuit of the REIT's objectives.

We would like to thank our loyal and hard-working employees who have all contributed to the progress we have made over the past 24 years. 2020 demonstrated just how critical our team members are to all that we do.



Respectfully,

A handwritten signature in blue ink, appearing to be 'R. Rutman', written over a horizontal line.

Ronald C. Rutman
Chairman

A handwritten signature in black ink, appearing to be 'T. Hofstedter', written over a horizontal line.

Thomas J. Hofstedter
President & Chief Executive Officer

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

For the year ended December 31, 2020

Dated: February 11, 2021

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SECTION I

BASIS OF PRESENTATION

Management's Discussion and Analysis ("MD&A") of the results of operations and financial position of H&R Real Estate Investment Trust ("H&R" or the "REIT") for the year ended December 31, 2020 includes material information up to February 11, 2021. Financial data for the years ended December 31, 2020 and 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. This MD&A should be read in conjunction with the financial statements of the REIT and appended notes for the year ended December 31, 2020 ("REIT's Financial Statements"). The REIT's Financial Statements are defined to refer to the financial statements for the REIT for the applicable period. 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.

Countries around the world have been affected by the COVID-19 virus, which was declared a pandemic by The World Health Organization on March 11, 2020. The outbreak of COVID-19 has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. The governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The duration and full impact of the COVID-19 pandemic on the REIT is unknown at this time, as is the efficacy of the governments' interventions. The extent of the effect of COVID-19 on the REIT's operational and financial performance will depend on numerous factors including the duration, spread, time frame and effectiveness of vaccination roll-out, all of which are uncertain and difficult to predict. As a result, it is not currently possible to ascertain the long term impact of COVID-19 on the REIT's business and operations. Certain aspects of the REIT's business and operations that have been and will continue to be impacted include rental income, occupancy, tenant inducements and future demand for space. In the preparation of the REIT's Financial Statements and MD&A, the REIT has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of its assets. The REIT has updated its future cash flows assumptions and its capitalization rates, terminal capitalization rates, and discount rates applied to these cash flows as well as updated its assumptions around the valuation of its accounts receivable and mortgages receivable.

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 "Assets", "Segmented Information", "Liquidity and Capital Resources", "Risks and Uncertainties" and "Subsequent Events" relating to H&R's objectives, beliefs, plans, estimates, projections and intentions and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts, including the statements made under the headings "Business Update" and "Summary of Significant 2020 Activity" including with respect to H&R's future plans, including significant development projects, H&R's expectation with respect to the activities of its development properties, including the building of new properties, the expected yield on cost from the REIT's development properties, the timing of construction, the timing of transfer from properties under development to investment properties, the timing of occupancy, the timing of lease-up and the expected total cost from development properties, management's expectations regarding future intensification opportunities including the timing of approvals for re-zoning and site plan applications, the impact of the COVID-19 virus on the REIT and the REIT's tenants, management's expectations regarding abatement expenses and recoveries including tenants participation in the Canada Emergency Rent Subsidy, the REIT's bad debt expense and expected credit loss, expectations regarding tenant retention and closures, the expected rental revenues from leases with replacement tenants, including any offset of a reduction in gross revenues relating to store closures, and the significant revenue opportunity represented by percentage rent participation, the state of the retail market, expected capital and tenant expenditures, capitalization rates and cash flow models used to estimate fair values, management's expectations regarding the REIT's leverage and portfolio quality, management's belief that Jackson Park's decline is temporary and expectations regarding future operating fundamentals, management's expectations regarding future distributions, management's belief that H&R has sufficient funds and liquidity for future commitments, management's expectation to be able to meet all of its ongoing obligations and management's belief that the REIT satisfies the test to qualify for REIT exemption. 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 H&R's 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 H&R's estimates and assumptions that are subject to risks, uncertainties and other factors including those risks and uncertainties described below under "Risks and Uncertainties" and those discussed in H&R's materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results, performance or achievements of H&R to differ materially from the forward-looking statements contained in this MD&A. 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 currently volatile and in an economic downturn as a result of the COVID-19 pandemic and low oil and gas prices, the extent and duration of which is unknown; interest rates are volatile as a result of general economic conditions; and debt markets continue to provide access to capital at a reasonable cost, notwithstanding the ongoing economic downturn. Additional risks and uncertainties include, among other things, risks related to: real

property ownership; the current economic environment; COVID-19; credit risk and tenant concentration; lease rollover risk; interest and other debt-related risk; construction risks; currency risk; liquidity risk; financing credit risk; cyber security risk; environmental and climate change risk; co-ownership interest in properties; joint arrangement and investment risks; Unit price risk; availability of cash for distributions; ability to access capital markets; dilution; unitholder liability; redemption right risk; risks relating to debentures and the inability of the REIT to purchase senior debentures on a change of control; tax risk, and additional tax risk applicable to unitholders. H&R cautions that these lists of factors, risks and uncertainties are not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what H&R believes 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 H&R'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 H&R to differ materially from the forward-looking statements contained in this MD&A. All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements are made as of February 11, 2021 and the REIT, except as required by applicable Canadian law, assumes no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances.

NON-GAAP FINANCIAL MEASURES

The REIT's Financial Statements are prepared in accordance with IFRS. However, in this MD&A, a number of measures are presented that are not measures under generally accepted accounting principles ("GAAP") in accordance with IFRS. 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. Furthermore, the REIT's 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.

(a) The REIT's proportionate share

H&R accounts for investments in joint ventures and associates as equity accounted investments in accordance with IFRS. The REIT's proportionate share is a non-GAAP measure that adjusts the REIT's Financial Statements to reflect H&R's equity accounted investments and its share of net income (loss) from equity accounted investments on a proportionately consolidated basis at H&R's ownership interest of the applicable investment. Management believes this measure is important for investors as it is consistent with how H&R reviews and assesses operating performance of its entire portfolio. Throughout this MD&A, the balances at the REIT's proportionate share have been reconciled back to relevant GAAP measures.

H&R does not independently control its unconsolidated joint ventures and associates, and the presentation of pro-rata assets, liabilities, revenue, and expenses may not accurately depict the legal and economic implications of the REIT's interest in its joint ventures and associates.

(b) Same-Asset property operating income (cash basis)

Same-Asset property operating income (cash basis) is a non-GAAP financial measure used by H&R to assess period-over-period performance for properties owned and operated since January 1, 2019. Same-Asset property operating income (cash basis) adjusts property operating income to include property operating income from equity accounted investments on a proportionately consolidated basis at H&R's ownership interest of the applicable investment and excludes two non-cash items:

- Straight-lining of contractual rent. By excluding the impact of straight-lining of contractual rent, rentals from investment properties will consist primarily of actual rents collected by H&R.
- Realty taxes accounted for under IFRS Interpretations Committee Interpretation 21, *Levies* ("IFRIC 21"), which relates to the timing of the liability recognition for U.S. realty taxes. By excluding the impact of IFRIC 21, U.S. realty tax expenses are evenly matched with realty tax recoveries received from tenants throughout the period.

It further excludes:

- Acquisitions, business combinations, dispositions, transfers of properties under development to investment properties and transfers from investment properties to properties under development during the two-year period ended December 31, 2020 (collectively, "Transactions").

Management believes that this measure is useful for investors as it adjusts property operating income (including property operating income from equity accounted investments on a proportionately consolidated basis) for non-cash items which allows investors to better understand period-over-period changes due to occupancy, rental rates, realty taxes and operating costs, before evaluating the changes attributable to Transactions. Furthermore, it is also used as a key input in determining the value of investment properties. Refer to the "Property Operating Income" section in this MD&A for a reconciliation of property operating income to Same-Asset property operating income (cash basis).

(c) Funds from Operations (“FFO”) and Adjusted Funds from Operations (“AFFO”)

FFO and AFFO are non-GAAP financial measures widely used in the real estate industry as a measure of operating performance particularly by those publicly traded entities that own and operate investment properties. H&R presents its consolidated FFO and AFFO calculations in accordance with the Real Property Association of Canada (REALpac) February 2019 *White Paper on Funds From Operations and Adjusted Funds From Operations for IFRS*. 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 (loss) determined in accordance with IFRS. Management believes FFO to be a useful earnings measure for investors as it adjusts net income (loss) for items 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. AFFO is calculated by adjusting FFO for the following items: straight-lining of contractual rent, capital expenditures, tenant expenditures and leasing costs. Although capital and tenant expenditures can vary from quarter to quarter due to tenant turnovers, vacancies and the age of a property, H&R has elected to deduct actual capital and tenant expenditures in the period. This may differ from others in the industry that deduct a normalized amount of capital and tenant expenditures, based on historical activity, in their AFFO calculation. Furthermore, since H&R adjusts for actual tenant inducements paid, the amortization of tenant inducements per the REIT’s Financial Statements and at the REIT’s proportionate share is added back in order to only deduct the actual costs incurred by the REIT. 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. H&R’s method of calculating FFO and AFFO may differ from other issuers’ calculations. FFO and AFFO should not be construed as an alternative to net income (loss) or any other operating or liquidity measure prescribed under IFRS. Management uses FFO and AFFO to better understand and assess operating performance since net income (loss) includes several non-cash items which management believes are not fully indicative of the REIT’s performance. Refer to the “Funds From Operations and Adjusted Funds From Operations” section of this MD&A for a reconciliation of net income (loss) to FFO and AFFO.

(d) Interest coverage ratio

The interest coverage ratio is a non-GAAP measure that is calculated by dividing the total of: (i) property operating income (excluding straight-lining of contractual rent and IFRIC 21); (ii) finance income; and (iii) trust expenses (excluding the fair value adjustment to unit-based compensation) by finance costs from operations (excluding effective interest rate accretion and exchangeable unit distributions). This excludes gain (loss) on sale of investments and unrealized gains (losses) that may be taken into account under IFRS. Management uses this ratio and believes it is useful for investors as it is an operational measure used to evaluate the REIT’s ability to service the interest requirements of its outstanding debt. Interest coverage ratio is presented in the “Financial Highlights” and “Liabilities and Unitholders’ Equity” sections of this MD&A.

(e) Debt to total assets at the REIT’s proportionate share

H&R’s Declaration of Trust (as defined below) limits the indebtedness of H&R (subject to certain exceptions) to a maximum of 65% of the total assets of H&R, based on the REIT’s Financial Statements. H&R also presents this ratio at the REIT’s proportionate share which is a non-GAAP measure. Debt includes mortgages payable, debentures payable, unsecured term loans and lines of credit. Management uses this ratio to determine the REIT’s flexibility to incur additional debt. Management believes this is useful for investors in order to assess the REIT’s leverage and debt obligations. Refer to the “Financial Highlights” and “Liabilities and Unitholders’ Equity” sections of this MD&A for debt to total assets per the REIT’s Financial Statements and at the REIT’s proportionate share.

(f) Payout ratio as a % of FFO and payout ratio as a % of AFFO

Payout ratio as a % of FFO and payout ratio as a % of AFFO are non-GAAP measures which assess the REIT’s ability to pay distributions and are calculated by dividing distributions per Unit (as defined below) by FFO or AFFO per Unit for the respective period. H&R uses these ratios amongst other criteria to evaluate the REIT’s ability to maintain current distribution levels or increase future distributions as well as assess whether sufficient cash is being held back for operational expenditures. Furthermore, H&R uses the payout ratio as a % of AFFO to further assess whether sufficient cash is being held back for capital and tenant expenditures. Refer to the “Financial Highlights” and “Funds From Operations and Adjusted Funds From Operations” sections of this MD&A for the REIT’s payout ratio as a % of FFO and payout ratio as a % of AFFO.

(g) NAV per Unit

NAV per Unit is a non-GAAP measure that management believes is a useful indicator of fair value of the net tangible assets of H&R. NAV per Unit is calculated by dividing the sum of: (i) Unitholders’ equity, (ii) value of exchangeable units, and (iii) deferred tax liability by the total number of Units and exchangeable units outstanding. The rationale for including exchangeable units and the deferred tax liability are as follows: (i) under IFRS, exchangeable units are classified as debt, however, these units are not required to be repaid and each holder of these units has the option to convert their exchangeable units into Units, and therefore H&R considers this to be equivalent to equity; and (ii) the deferred tax liability is an undiscounted liability that would be crystallized in the event that U.S. properties are sold. H&R plans to continue to take advantage of U.S. tax legislation in order to further defer taxes owing on sold properties. H&R’s method of calculating NAV per Unit may differ from other issuers’ calculations.

OVERVIEW

H&R is an unincorporated open-ended trust created by a declaration of trust (“H&R’s Declaration of Trust”) and governed by the laws of the Province of Ontario. Unitholders are entitled to have their units (“Units”) redeemed at any time on demand payable in cash (subject to monthly limits) and/or *in specie*. The Units are listed and posted for trading on the Toronto Stock Exchange (“TSX”) under the symbol HR.UN.

H&R’s objective is to maximize NAV per Unit through ongoing active management of H&R’s assets, acquisition of additional properties and the development and construction of projects.

H&R’s strategy to accomplish this objective is to accumulate a diversified portfolio of high-quality investment properties in Canada and the United States leased by creditworthy tenants.

H&R’s strategy to mitigate risk includes diversification both by asset class and geographic location. H&R invests in four real estate asset classes which management views as four separate operating segments. H&R invests in office, retail, industrial and residential properties and acquires properties both in Canada and the United States. H&R’s Office segment, the largest of the four segments, holds a portfolio of single tenant and multi-tenant office properties across Canada and in select markets in the United States. H&R’s Retail segment operates as Primaris, and holds a portfolio of enclosed shopping centres, single tenant retail properties and multi-tenant retail plazas throughout Canada as well as 16 single tenant and one multi-tenant retail property in the United States. In addition, it also holds a 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. H&R’s Industrial segment holds a portfolio of single tenant and multi-tenant industrial properties across Canada and three single tenant industrial properties in the United States. H&R’s Residential segment operates as Lantower Residential, a wholly-owned subsidiary of H&R, and focuses on acquiring and developing residential rental properties in the United States. Management assesses the results of these operations separately.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”)

As one of the largest REITs in Canada, H&R strives to lead by example within the industry and be a part of the ever-changing journey to a more sustainable future. With the current pandemic landscape, having an integrated and forward-thinking sustainability program is of utmost importance. Although H&R formally implemented its Sustainability Policy and established its Sustainability Committee in 2019, sustainability has always been part of H&R’s culture in every facet of the REIT’s business. The REIT has always viewed sustainability as its responsibility to its unitholders in terms of transparency, to its employees in terms of communication, collaboration and opportunity, to its tenants in terms of providing healthy working and living environments and to the greatest extent, to its communities in which the REIT’s employees live and the REIT does business.

In furtherance of the foregoing, H&R is committed to, among other things, investing responsibly, monitoring its use of resources and associated emissions, reducing consumption and pollution, increasing energy efficiency and integrating sustainability into the REIT’s business, including the REIT’s decision-making processes.

H&R is proud to have shared its inaugural Sustainability Report in the Spring of 2020, highlighting Environmental, Social and Governance (“ESG”) initiatives and accomplishments for the 2019 calendar year. H&R’s inaugural Sustainability Report has provided the REIT with an ESG framework to report, in a consistent and efficient manner, the REIT’s commitment to drive sustainable performance and improvement. H&R continues to work alongside Energy Profiles Limited to benchmark the REIT’s performance REIT-wide, ensuring transparency and continuous improvement year-over-year.

Key programs and initiatives include:

Environmental

- H&R continues to implement programs to reduce carbon emissions, energy use, water use and waste;
- H&R has tracked and reported on investor grade utility data and emissions for the majority of H&R office properties since 2013;
- In 2020, H&R expanded its reporting boundary to report utility consumption and emissions wherever H&R has control over utility use and/or is able to access utility data;
- H&R has reported to the Carbon Disclosure Project (CDP) since 2018;
- H&R's like-for-like Greenhouse Gas ("GHG") market-based emissions decreased by 2% in 2019 compared to 2018; equivalent to taking 250 passenger vehicles off the road, according to the United States Environmental Protection Agency;
- H&R's like-for-like electricity use decreased by 4% in 2019 compared to 2018; this reduction is equivalent to the electricity use of 800 single-family homes in Ontario, according to the Ontario Energy Board;
- H&R's like-for-like water use decreased by 5.6% in 2019 compared to 2018; equivalent to the annual household water use of 229 people, according to the U.S. Geological Survey;
- As of 2020, H&R has opted to report using selected Standards with a Global Reporting Initiative (GRI)-referenced claim. In addition, H&R reports on indicators from the Standards set out by the Sustainability Accounting Standards Board (SASB) Real Estate subsector. Both frameworks provide H&R the capacity to benchmark its performance REIT-wide and within the REIT industry, ensuring transparency;
- As of December 31, 2020, 11 of H&R's properties have LEED Certification, some as part of the initial development of such properties and others through subsequent renovation projects undertaken by H&R;
- As of December 31, 2020, seven of H&R's properties have been certified under BOMA's Canadian Green Building System: BOMA BEST; and
- H&R conducts environmental due diligence prior to acquiring a property, obtains and/or peer reviews Phase I Environmental Site Assessment reports conducted by independent and experienced consultants, and if recommended, undertakes further remedial reporting.

Social

- H&R's residential division, Lantower Residential, is "Best Place to Work" certified;
- H&R supports employee charity initiatives as corporate and on-site staff participate in charity initiatives and programs;
- Throughout the organization, job placements are first offered internally to staff to allow movement and growth within the organization, thereby enabling H&R's staff to learn and acquire new skills and achieve personal development;
- H&R offers professional fee coverage and contributions to relevant professional development courses;
- Accommodation for leaves of absence, flexible hours and paid time off for employees related to sick time and childcare;
- Use of a written diversity policy;
- H&R is proud to have been recognized by "Women Lead Here" highlighting the emphasis H&R places in diversity and inclusion in 2020; and
- As of December 31, 2020, 38% of H&R's Tier 2 Executives and 47% of H&R's Tier 3 Executives are women. Overall, 47% of H&R's North American workforce are women. As well, in accordance with the target set out in the REIT's diversity policy, 25% of the current members of the REIT's Board of Trustees (the "Board") are women, which proportion was achieved ahead of the targeted time of the close of the REIT's 2021 annual meeting of unitholders.

Governance

- Use of a code of business conduct and ethics policy, whistle-blower policy, trading policy and disclosure and social media policy;
- On an annual basis, each employee acknowledges the company's policies have been reviewed and that they agree to comply with them;
- H&R has established policies governing the tenure and constitution of its Board including that the tenure for all new trustees is limited to 10 years;
- Use of an Independent Board Chairperson;
- Use of a "Say on Pay" vote;
- Use of a minimum unit ownership requirement for Trustees, the CEO and the CFO; and
- Use of a clawback policy applicable to all incentive compensation.

The REIT looks forward to sharing this Spring its 2021 Sustainability Report and to report to investors how the REIT's commitment to sustainability is manifesting itself in its portfolio and resulting in lasting changes for its properties, tenants, employees, stakeholders and communities at large.

For H&R's Sustainability Policy and additional information about its Sustainability Committee and Report, visit H&R's website under Sustainability.

SECTION II

FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars except per Unit amounts)	December 31, 2020	December 31, 2019	December 31, 2018
Total assets	\$13,355,444	\$14,483,342	\$14,691,009
Debt to total assets per the REIT's Financial Statements ⁽¹⁾	47.7%	44.4%	44.6%
Debt to total assets at the REIT's proportionate share ⁽¹⁾⁽²⁾	51.1%	47.7%	47.1%
Unitholders' equity	6,071,391	7,043,917	7,200,100
Units outstanding (in thousands of Units)	286,863	286,690	285,678
Unitholders' equity per Unit	\$21.16	\$24.57	\$25.20
NAV per Unit ⁽²⁾⁽³⁾	\$21.93	\$25.79	\$26.30
Unit price	\$13.29	\$21.10	\$20.65

	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
Rentals from investment properties	\$277,509	\$282,221	\$1,098,680	\$1,149,450
Property operating income	183,616	184,775	663,666	710,975
Same-Asset property operating income (cash basis) ⁽²⁾	180,624	189,901	716,908	750,481
Net income (loss) from equity accounted investments	(44,697)	36,958	(16,986)	31,201
Fair value adjustment on real estate assets	69,960	(43,689)	(1,195,958)	(103,903)
Net income (loss)	111,644	163,402	(624,559)	340,289
FFO ⁽²⁾	127,398	133,687	503,096	529,118
AFFO ⁽²⁾	67,280	89,394	383,811	401,594
Weighted average number of basic Units for FFO ⁽²⁾	301,746	301,573	301,687	301,487
FFO per basic Unit ⁽²⁾	\$0.42	\$0.44	\$1.67	\$1.76
AFFO per basic Unit ⁽²⁾	\$0.22	\$0.30	\$1.27	\$1.33
Distributions per Unit	\$0.17	\$0.35	\$0.92	\$1.38
Payout ratio as a % of FFO ⁽²⁾	40.8%	77.9%	55.2%	78.6%
Payout ratio as a % of AFFO ⁽²⁾	77.1%	116.6%	72.3%	103.6%
Interest coverage ratio ⁽²⁾	3.17	3.18	3.12	3.05

⁽¹⁾ Debt includes mortgages payable, debentures payable, unsecured term loans and lines of credit.

⁽²⁾ These are non-GAAP measures. Refer to the "Non-GAAP Financial Measures" section of this MD&A.

⁽³⁾ Refer to page 26 for a detailed calculation of NAV per Unit.

The fair value adjustment on real estate assets is further discussed on page 7 of this MD&A. Net income (loss) is reconciled to FFO and AFFO on page 36 of this MD&A.

KEY PERFORMANCE DRIVERS

The following table is presented at the REIT's proportionate share and includes investment properties classified as assets held for sale:

OPERATIONS		Office	Retail	Industrial	Residential	Total
<i>Occupancy as at December 31</i>	2020	99.6%	90.3%	97.5%	88.1%	94.0%
	2019	98.6%	91.5%	97.2%	90.7%	94.5%
<i>Occupancy – Same-Asset as at December 31⁽¹⁾</i>	2020	99.7%	92.0%	98.4%	88.5%	95.0%
	2019	98.6%	91.8%	97.1%	91.6%	94.8%
<i>Average contractual rent per sq.ft. for the year ended December 31-Canadian properties⁽²⁾</i>	2020	\$26.29	\$21.30	\$7.21	N/A	\$18.52
	2019	\$26.13	\$21.00	\$6.80	N/A	\$18.25
<i>Average contractual rent per sq.ft. for the year ended December 31-U.S. properties (USD)⁽²⁾⁽³⁾</i>	2020	\$33.84	\$19.14	\$4.06	\$20.09	\$21.06
	2019	\$32.15	\$19.08	\$3.76	\$21.92	\$21.86
<i>Average remaining term to maturity of leases as at December 31 (in years)</i>	2020	12.2	6.9	6.4	N/A	9.5
	2019	12.4	6.6	6.7	N/A	9.6
<i>Average remaining term to maturity of mortgages payable as at December 31 (in years)</i>	2020	2.7	3.7	5.1	7.6	4.9
	2019	3.4	4.5	6.0	8.5	5.7

(1) Same-Asset refers to those properties owned by H&R for the two-year period ended December 31, 2020.

(2) Excludes properties sold in their respective year.

(3) Excludes River Landing Commercial which is currently in lease-up.

BUSINESS UPDATE

H&R is pleased to report financial and operating results from 2020 that demonstrate the resilient nature of the REIT's portfolio, and also reflect the prudent actions taken by management in response to the extraordinary events that followed the arrival of the COVID-19 pandemic. Management believes this resilience is a function of the REIT's long-term strategic focus on high-quality properties, high credit quality tenants and strong balance sheet, and required the concerted efforts of the team at H&R working collaboratively with stakeholders to protect its tenants, employees and investors.

Fair Value Adjustment on Real Estate Assets

The financial results for the year ended December 31, 2020 include significant fair value adjustments recorded in Q1 2020. These adjustments are a result of H&R's regular quarterly IFRS fair value process, and reflect: (i) an acceleration of challenging conditions in the retail landscape impacting the valuation assumptions of retail properties; and (ii) energy sector volatility that may have impacted the credit quality of many companies operating in this industry and the related impacts on office property market fundamentals in markets with significant energy industry employment.

While the strong recovery in same-store sales at the REIT's shopping centres and the improved cost and access to credit enjoyed by energy sector tenants are encouraging, there have not been a sufficient number of transactions in the applicable property markets to warrant changes in these sectors in Q4 2020.

Fair Value Adjustment on Real Estate Assets (in thousands of Canadian dollars)	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Year ended December 31, 2020
Operating Segment:					
Office	(\$668,904)	(\$34,210)	(\$2,666)	(\$6,049)	(\$711,829)
Retail	(656,358)	(7,882)	(7,804)	(15,190)	(687,234)
Industrial	6,891	(4,518)	10,155	95,392	107,920
Residential	19,600	(15,671)	93,353	(57,402)	39,880
Fair value adjustment on real estate assets per the REIT's proportionate share	(1,298,771)	(62,281)	93,038	16,751	(1,251,263)
Less: equity accounted investments	(2,471)	4,605	(38)	53,209	55,305
Fair value adjustment on real estate assets per the REIT's Financial Statements	(\$1,301,242)	(\$57,676)	\$93,000	\$69,960	(\$1,195,958)

Residential properties in U.S. Sun Belt cities have seen increased investment demand since the start of COVID-19 and this has resulted in a decrease in the capitalization rates used as part of H&R's regular quarterly IFRS fair value process in Q3 2020. In Q4 2020, H&R transferred an industrial property from properties under development to investment properties resulting in a \$44.0 million fair value gain, further discussed on page 11 of this MD&A. This fair value adjustment and the remaining fair value adjustments to industrial properties are due to a continued rise in rental rates and an increase in investor demand which have resulted in a decrease in the capitalization rates used for these properties as part of H&R's regular quarterly IFRS fair value process in Q4 2020. The total fair value adjustment for the year ended December 31, 2020 of \$1.2 billion resulted in an overall NAV per Unit decrease of approximately \$3.86.

Provision for expected Credit Loss and Bad Debt Expense

Bad debt expense is classified as an expense and is grouped together with other expenses in property operating costs. The following tables disclose H&R's provision for expected credit loss and bad debt expense including the impact of COVID-19. In determining these amounts, the REIT performed a tenant-by-tenant assessment considering the payment history and future expectations of default based on actual and expected insolvency filings. H&R's retail segment was impacted more than other segments due to government mandated closures primarily affecting the REIT's enclosed shopping centres.

Provision for expected credit loss (in thousands of Canadian dollars)	December 31 2020	December 31 2019
Opening balance, beginning of year	\$1,073	\$749
Bad debt expense ⁽¹⁾	39,708	2,143
Accounts receivable write-off ⁽¹⁾	(25,646)	(1,819)
Closing balance, end of year	\$15,135	\$1,073

⁽¹⁾ Includes \$5.9 million of rent abatements granted under the Canada Emergency Commercial Rent Assistance ("CECRA") program.

Bad Debt Expense (in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Bad debt expense by Same-Asset operating segment:						
Office	\$723	\$81	\$642	\$1,266	\$200	\$1,066
Retail	2,543	300	2,243	38,263	518	37,745
Industrial	-	-	-	52	-	52
Residential	562	494	68	2,179	1,292	887
Total Same-Asset bad debts	3,828	875	2,953	41,760	2,010	39,750
Transactions	82	84	(2)	412	206	206
Bad debt expense per the REIT's proportionate share	3,910	959	2,951	42,172	2,216	39,956
Less: equity accounted investments	(675)	(129)	(546)	(2,464)	(73)	(2,391)
Bad debt expense per the REIT's Financial Statements	\$3,235	\$830	\$2,405	\$39,708	\$2,143	\$37,565

H&R has recorded a bad debt expense for the year ended December 31, 2020 of \$39.7 million. The bad debt expense of \$23.9 million for the six months ended June 30, 2020 was increased by \$12.6 million in Q3 2020 and by \$3.2 million in Q4 2020. 2021 may bring further retailer distress, which is difficult to predict. Management is committed to working together with its tenants to ensure the vitality of H&R's shopping centres.

Tenant Closures

Many retailers have faced very challenging conditions in 2020. Several filed for *Canada Companies' Creditors Arrangement Act* ("CCAA") creditor protection and several have announced store closures. The REIT's focus on maintaining affordable cost structures for its mall-based retailers has resulted in above-average rent collections as compared to other large mall owners, and high retention of store locations by tenants planning store closures elsewhere. The following table summarizes the tenant groups that have filed for creditor protection under the CCAA:

Tenant Group	CCAA	-----Current-----		-----Expected to be Retained-----	
	Filing Date	Square footage ⁽¹⁾	Number of Stores	Square footage ⁽¹⁾	Number of Stores
Pier One	February 29, 2020	28,583	3	-	-
Aldo	May 7, 2020	27,715	19	23,724	15
Reitmans	May 19, 2020	43,917	17	38,544	14
Comark	June 3, 2020	79,890	26	79,890	26
General Nutrition Centres	June 24, 2020	6,868	8	4,586	6
David's Tea	July 8, 2020	9,158	16	-	-
Tristan	July 21, 2020	2,500	1	2,500	1
Ascena	July 23, 2020	19,187	7	2,199	1
Laura's Group	August 4, 2020	9,047	3	9,047	3
Moores	August 5, 2020	5,004	1	5,004	1
Lilianne Lingerie	August 10, 2020	524	1	524	1
Cazza	August 13, 2020	4,944	3	4,944	3
Manteaux Manteaux	August 14, 2020	2,419	2	2,419	2
Dynamite	September 8, 2020	45,132	15	45,132	15
Ernest	September 14, 2020	1,011	1	1,011	1
Le Chateau	October 23, 2020	42,767	13	-	-
Vivah Jewellery	October 30, 2020	426	2	-	-
Total subject to CCAA		329,092	138	219,524	89
Total Retail Segment		13,704,000	2,658		

⁽¹⁾ At H&R's ownership interest.

H&R REIT continues to work collaboratively with its tenants that have been affected by the pandemic. Retailers undergoing CCAA restructuring has been an area of particular focus for management, where retention of stores has exceeded 64%. Management expects no closures from GAP, H&M, or L Brands in the REIT's portfolio, and the REIT does not have any locations with Brooks Brothers, Lucky Brands, J. Crew, Mendocino, Frank & Oak, Lole or Microsoft Corporation, each of which has announced plans for store closures.

In relation to the REIT's initial 2020 budget of approximately \$1.1 billion of gross revenue, Primaris accounted for approximately \$285 million. Of that amount, approximately \$21.2 million of gross rent was attributable to tenants undergoing restructurings or liquidations. Annualized rental revenue has been reduced by approximately \$12.3 million at the REIT's share, as a result of both store closures and lease amendments, at the REIT's share. Store closures, which provide the opportunity to re-lease space to new tenants, account for \$6.1 million of this amount, while temporary lease amendments to rental rates for retained tenancies accounts for the remaining \$6.2 million of this amount.

Among the 49 store closures for tenants that have filed for creditor protection under the CCAA aggregating 109,568 square feet across H&R's 13,704,000 square foot retail portfolio, leases have been signed with replacement tenants for 23 stores for 35,672 square feet, with many having commenced occupancy. The rental revenues from these new tenancies are expected to partially offset the annualized \$6.1 million reduction in gross revenues relating to store closures in 2021, though the magnitude of that offset depends significantly on tenant sales and percentage rent participation. Similarly, the annualized \$6.2 million of gross revenue reduction due to temporary lease amendments assumes no percentage rent is collected under the temporary lease terms.

Rent Collection

Rent collection has been a key focus during the pandemic, and one where H&R believes it has performed well while also accommodating the needs of its tenants. As of February 5, 2021, H&R's rent collections since the onset of COVID-19 are as follows:

Tenant Type ⁽¹⁾	Share of Rent ⁽²⁾	Q2 2020 Collection ⁽²⁾	Q3 2020 Collection ⁽²⁾	Q4 2020 Collection ⁽²⁾	January Collection ⁽²⁾
Office	45%	99%	99%	99%	99%
Retail:					
<i>Enclosed</i>	20%	65%	79%	83%	82%
<i>Other</i>	13%	93%	96%	95%	93%
Total Retail	33%	75%	86%	88%	86%
Residential	16%	97%	97%	97%	96%
Industrial	6%	100%	99%	100%	99%
Total⁽³⁾	100%	91%	95%	95%	94%

(1) Retail tenants in an office property for the purpose of this table have been classified as retail.

(2) The average share of rent and collections include monthly billings for base rent and property operating costs.

(3) April to September collections include an aggregate amount of \$11.8 million received from the Government of Canada under the CECRA program.

H&R's high-quality, long-term leased office portfolio delivered strong rent collection consistent with the profile of the tenant base, with 85.5% of revenues coming from investment-grade rated tenants. Rent collection was also strong in H&R's industrial and residential portfolios, reflecting the stronger-than-average credit profile of the REIT's tenant base across both of these portfolios.

H&R achieved an overall rent collection of 94% in January 2021, compared to 95% in Q4 2020, 95% in Q3 2020 and 91% in Q2 2020.

The tenants that have been impacted the most by the COVID-19 pandemic have been retailers. Rent collection in H&R's retail portfolio reflects a blend of grocery-anchored centres, single tenant and enclosed mall properties. Non-essential stores across Canada were closed by government mandates in March. By the end of June all properties, including most stores at enclosed shopping centres, were re-opened, which is reflected in the retail rent collections trending upwards from 75% in Q2 2020 to 86% in Q3 2020. Q4 2020 collections from the retail portfolio of 88% is without any CECRA subsidies.

The CECRA program for small businesses implemented by the Government of Canada provided forgivable loans to qualifying landlords to cover 50% of six monthly rent payments that were payable by eligible small business tenants who were experiencing financial hardship during April to September 2020. Tenants were responsible for contributing 25% of the rent payments with the landlords abating the remaining 25% share.

H&R filed CECRA applications for 39 properties covering approximately \$23.5 million of gross rent at H&R's ownership interest cumulatively for the six month period from April to September. H&R's 25% abatement was approximately \$5.9 million and the Government of Canada's 50% received was approximately \$11.8 million.

In October 2020, the Government of Canada introduced the Canada Emergency Rent Subsidy which provides tenants with direct access (without landlord participation) to rent support until June 2021 for qualifying organizations affected by COVID-19. The REIT expects that its tenants who qualify will participate in this program which should cover up to 65% of such tenants' eligible expenses.

Liquidity

Management took precautionary measures to further bolster the REIT's liquidity as a result of the severity of the pandemic's impact on economic conditions. During Q2 2020, the REIT secured a new \$500.0 million unsecured line of credit from a syndicate of five Canadian banks maturing April 17, 2021. The REIT also arranged a new \$100.0 million secured mortgage on a previously unencumbered property, maturing in 2029. Further, during Q2 2020, H&R issued \$400.0 million Series Q Senior Debentures maturing June 16, 2025, the proceeds of which were used to repay lines of credit. During Q4 2020, H&R issued \$250.0 million Series R Senior Debentures maturing June 2, 2026, the proceeds of which were used to repay lines of credit. Notably, all of these financing measures were arranged following the onset of the COVID-19 economic disruption, underscoring H&R's strong access to capital availability and cash on hand.

As at December 31, 2020, H&R had \$1.1 billion of undrawn credit facilities available under its lines of credit, \$62.9 million of cash on hand and an unencumbered asset pool of approximately \$3.7 billion.

Distributions

As previously announced in May 2020, in light of current operating and capital market conditions, management recommended and the Board approved a 50% reduction of monthly distributions effective May 2020, from \$0.115 per Unit to \$0.0575 per Unit, or \$0.690 per Unit annually. For the year ended December 31, 2020, this resulted in a distribution decrease of 33.3%. This distribution rate provides additional financial flexibility to absorb potential income interruption related to the pandemic in the near term, and allows for significant capital reinvestment into the REIT's developments and properties to address tenant turnover without increasing the REIT's financial leverage. The Board will continue to re-evaluate the distribution on a quarterly basis taking into account a variety of relevant factors including the REIT's taxable income.

SUMMARY OF SIGNIFICANT 2020 ACTIVITYDevelopments*United States:*

H&R's active development pipeline in the United States currently comprises five residential developments with a total development budget of U.S. \$354.3 million. As at December 31, 2020, U.S. \$305.2 million had been spent on properties under development with U.S. \$49.1 million of budgeted costs remaining to be spent of which U.S. \$45.1 million is available to be funded through secured construction facilities, in each case at the REIT's proportionate share.

The REIT's largest current development project is River Landing, an urban in-fill mixed use development site in Miami, FL, which is adjacent to the Health District with approximately 1,000 feet of waterfront on the Miami River, two miles from downtown Miami. River Landing includes approximately 347,000 square feet of retail space, approximately 149,000 square feet of office space and 528 residential rental units. In Q4 2020, the retail and office portion of this project, known as "River Landing Commercial", reached substantial completion and was transferred from properties under development to investment properties. Retail occupancy was 65.3% as at December 31, 2020, which includes the following major tenants: Publix Super Markets Inc., Hobby Lobby, Burlington, Ross Stores Inc., Old Navy and Planet Fitness. Committed occupancy for retail space as at December 31, 2020 was 80.3% with the remaining retail lease-up expected to occur during 2021. The REIT is continuing negotiations with multiple parties on the office space. As at December 31, 2020, 134 residential leases have been entered into and occupancy was 21.4%, exceeding management's expectations on leasing velocity. The residential portion of River Landing is expected to be transferred from properties under development to investment properties in Q1 2021. The total cost of the project is expected to be completed on budget at approximately U.S. \$495.9 million of which \$300.0 million was allocated to River Landing Commercial and the remaining \$195.9 million has been allocated to the residential space.

H&R has a 31.7% non-managing ownership interest in 38.4 acres of land located in Hercules, CA, adjacent to San Pablo Bay, northeast of San Francisco, for the development of residential rental units (the "Hercules Project"). Phase 1 of the Hercules Project, known as "The Exchange at Bayfront", consists of 172 residential rental units, including lofts and townhomes and 13,762 square feet of ground level retail space. The four-storey podium project sits on 2.2 acres over a one-level subterranean parking garage. Construction commenced in June 2018 and substantial completion was achieved in Q4 2020, resulting in the REIT transferring this property from properties under development to investment properties. As at December 31, 2020, 120 leases had been entered into and occupancy was 68.0%. As at December 31, 2020, The Exchange at Bayfront, at the 100% ownership level, was valued at approximately U.S. \$87.8 million compared to costs of approximately U.S. \$81.3 million, resulting in a fair value gain of U.S. \$6.5 million since the start of the project. The annualized unlevered yield on budgeted cost is approximately 5.4% and the project was completed on budget. Refer to page 20 of this MD&A for further information on the Hercules Project.

In December 2020, H&R acquired 5.4 acres of land in Dallas, TX for U.S. \$9.7 million, which is expected to be developed into approximately 414 residential rental units. The site is located within close proximity to Downtown/Uptown Dallas and is also located near Dallas Love Field Airport.

Canada:

Construction continued on the first phase of a 2.7 million square foot industrial development in Caledon, ON. The first phase consists of three buildings, which will total approximately 526,000 square feet upon completion. In January 2020, H&R completed a 10-year lease with Deutsche Post AG to occupy the largest of the three buildings ("205 Speirs Giffen Ave.") totalling 342,821 square feet. Deutsche Post AG commenced occupancy in November 2020 and a fair value gain of \$44.0 million was recorded as the property was transferred from properties under development to investment properties. As a result of COVID-19, H&R has temporarily suspended construction of the second and third buildings (140 & 34 Speirs Giffen Ave.).

In July 2020, H&R acquired 15.4 acres of land in Mississauga, ON for \$18.7 million which is expected to be developed into two industrial buildings totalling approximately 329,000 square feet.

In November 2020, H&R acquired a 50% interest in 24.6 acres of land in Mississauga, ON which is expected to be developed into one industrial building totalling approximately 500,000 square feet. The REIT's partner contributed the land valued at approximately \$36.9 million, and H&R has contributed \$2.1 million with the balance of capital to be contributed as development costs are incurred.

For a complete list of H&R's current development projects, refer to pages 18 and 19 of this MD&A.

Future Intensification Opportunities

The REIT has many intensification opportunities embedded in its portfolio. The fair market value that management ascribes to these properties excludes the value that may be unlocked as these projects progress.

In June 2020, the REIT along with its partner, submitted a re-zoning application for the east and north portions of its 3777 & 3791 Kingsway sites in Burnaby, B.C. The proposal could add over 2,000 residential rental units in four mixed-use high density towers including retail and residential uses with approximately 1,800,000 square feet of residential area and 44,000 square feet of commercial area. The REIT expects to obtain approval for its re-zoning and site plan applications in Q4 2021.

In November 2020, the REIT acquired 53 Yonge St. in Toronto, ON, a five-storey 11,110 square foot office property, for \$11.5 million. The REIT acquired this property as it shares its northern property line with the REIT's 55 Yonge St. office property. The two properties encompass approximately 0.37 acres and the REIT submitted a re-zoning application in January 2021 to replace the existing 13-storey and five-storey office buildings with a 66-storey residential and office tower with retail uses on the first two floors. This further breaks down into approximately 12,000 square feet of retail space, 146,000 square feet of office space and 283,000 square feet of residential space (approximately 500 residential rental units). The REIT expects to obtain approval for its re-zoning and site plan applications in Q4 2022.

The REIT plans to submit a re-zoning application at its Front St. property in Toronto, ON for a 69-storey mixed use development including retail, residential and office uses. The development will replace the existing eight-storey office building at 310 Front St., and will integrate into H&R's larger office block which includes 320 and 330 Front St. The project will include approximately 118,000 square feet of office, 2,000 square feet of retail and 463,000 square feet of residential space. The REIT expects to obtain approval for its re-zoning and site plan applications in Q4 2022.

In addition to these projects, the REIT continues to advance its intensification pipeline of projects within its existing portfolio. Dufferin Grove Village at Dufferin Mall, which will include 1,135 residential rental units and 75,000 square feet of retail space and the redevelopment of 145 Wellington St., which will include a 65-storey mixed-use tower consisting of 476 residential rental units, 157,500 square feet of office space and 1,750 square feet of retail space are both expected to receive re-zoning and site plan approval in Q4 2021.

Office

In January 2020, the \$256.0 million mortgage receivable secured by The Atrium associated with the sale of the property in June 2019 was repaid.

During Q2 2020, H&R completed an agreement with the tenant of one of H&R's office properties located in Dallas, TX that had been significantly damaged by a tornado and a concurrent agreement with the insurance company resulting in H&R receiving the following: (i) a lease termination payment of U.S. \$2.3 million in exchange for the tenant's lease expiring at September 30, 2020 (previously December 31, 2025); and (ii) a settlement with the insurance company for U.S. \$10.9 million. As part of this agreement, H&R repaid the associated mortgage totalling U.S. \$5.3 million at an interest rate of 5.4%. The property was transferred from investment properties to properties under development in Q4 2020 and was recorded at the land value of U.S. \$0.5 million as at December 31, 2020 compared to U.S. \$10.0 million for land and building as at December 31, 2019.

In November 2020, the REIT entered into a lease extension and amending agreement ("Hess Lease Amendment") with Hess Corporation ("Hess") for its premises in Houston, TX, under which Hess has agreed to extend the term of its lease on approximately two-thirds of the building for an additional term of 10 years beyond its current expiry of June 30, 2026. As part of the lease renewal, Hess received a tenant inducement and H&R paid related broker commissions which totalled \$36.1 million.

Same-Asset property operating income (cash basis) from office properties decreased by 3.4% and 1.6%, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods primarily due to the Hess Lease Amendment which included an initial seven month rent free period. Included in the year ended December 31, 2020 were lease termination fees of nil compared to \$5.8 million for the year ended December 31, 2019. Excluding lease termination fees and the impact of the Hess Lease Amendment, Same-Asset property operating income (cash basis) increased by 1.0% in both periods.

Industrial

In January 2020, H&R purchased a 50% ownership interest in a 93,330 square foot single-tenanted property in Whitby, ON for approximately \$6.6 million.

In February 2020, H&R purchased the remaining 49.5% interest in 7575 Brewster Ave., Philadelphia, PA for U.S. \$11.6 million. As H&R owns 100% of this property, it is now consolidated in the REIT's Financial Statements. The property is leased to Amazon.com, Inc.

In April 2020, H&R sold a 50% ownership interest in a 363,983 square foot single-tenanted property in Boucherville, QC for approximately \$17.4 million. This property was previously classified as held for sale as at December 31, 2019.

In Q4 2020, H&R completed construction of 205 Speirs Giffen Ave., a 342,821 square foot property in Caledon, Ontario which is fully leased to Deutsche Post AG for a 10-year term. H&R recorded a fair value gain of \$44.0 million as this development was transferred to investment properties.

Same-Asset property operating income (cash basis) from industrial properties increased by 5.7% and 5.8%, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods, primarily due to an increase in occupancy and increased rental rates on lease renewals.

Residential

Same-Asset property operating income (cash basis) from residential properties in U.S. dollars decreased by 20.5% for the three months ended December 31, 2020 compared to the respective 2019 period, primarily due to Jackson Park in New York which has been negatively impacted by lower than average lease renewals and prospective tenant inquiries as a result of COVID-19. H&R believes this decline is temporary and expects operating fundamentals to improve in the second half of 2021. Excluding Jackson Park, Same-Asset property operating income (cash basis) from residential properties in U.S. dollars increased by 2.5% and 6.9%, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods, primarily due to an increase in revenue from rental rate growth and the stabilization of various assets in the portfolio, partially offset by an increase in bad debt expense as a result of the impact of COVID-19.

Retail

Same-Asset property operating income (cash basis) from retail properties decreased by 1.7% and 13.2%, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods, primarily due to bad debt expense as a result of the impact of COVID-19. This was partially offset by a decrease in operating expenses as a result of the impact of properties being closed or partially closed due to COVID-19.

Funds from Operations and Adjusted Funds from Operations

FFO per Unit in Q4 2020 was \$0.42 compared to \$0.41 in Q3 2020 and \$0.44 in Q4 2019. Excluding the Q4 2020 bad debt expense of \$3.9 million, Q4 2020 FFO would have been \$0.44 per Unit. AFFO per Unit was \$0.22 in Q4 2020 compared to \$0.35 in Q3 2020 and \$0.30 in Q4 2019. H&R deducts actual capital and leasing expenditures in determining AFFO. These expenditures were elevated in Q4 2020 primarily due to leasing expenditures incurred with respect to the Hess Lease Amendment. Distributions paid as a percentage of AFFO was 72.3% for the year ended December 31, 2020, resulting in significant retained cash flow. Refer to the "Funds From Operations and Adjusted Funds From Operations" section of this MD&A for a reconciliation of Net income (loss) to FFO and AFFO.

Debt Highlights

As at December 31, 2020, debt to total assets was 47.7% compared to 44.4% as at December 31, 2019. This is primarily due to the negative fair value adjustment of certain office and retail properties (further discussed on page 7 of this MD&A) of approximately \$1.2 billion. The weighted average interest rate of H&R's debt as at December 31, 2020 was 3.6% with an average term to maturity of 3.5 years.

Mortgages:

During the year ended December 31, 2020, H&R secured seven new mortgages totalling \$214.8 million at a weighted average interest rate of 3.5% for an average term of 7.4 years and repaid eight mortgages totalling \$120.8 million at a weighted average interest rate of 4.2%.

Debentures:

In June 2020, H&R issued \$400.0 million principal amount of 4.071% Series Q Senior Debentures maturing June 16, 2025. In December 2020, H&R issued \$250.0 million principal amount of 2.906% Series R Senior Debentures maturing June 2, 2026. The proceeds from both issuances were used to repay lines of credit.

Lines of Credit:

In Q2 2020, H&R bolstered its liquidity by securing a \$500.0 million unsecured line of credit from a syndicate of five Canadian banks for a one-year term.

SECTION III**FINANCIAL POSITION**

The following foreign exchange rates have been used in the statement of financial position when converting U.S. dollars to Canadian dollars except where otherwise noted:

	December 31, 2020	December 31, 2019
For each U.S. \$1.00	\$1.27 CAD	\$1.30 CAD

(in thousands of Canadian dollars)	December 31, 2020	December 31, 2019
Assets		
Real estate assets		
Investment properties	\$11,149,130	\$11,988,347
Properties under development	449,849	683,145
	11,598,979	12,671,492
Equity accounted investments	955,468	1,002,773
Assets classified as held for sale	219,050	135,673
Other assets	519,088	624,764
Cash and cash equivalents	62,859	48,640
	\$13,355,444	\$14,483,342
Liabilities and Unitholders' Equity		
Liabilities		
Debt	\$6,368,316	\$6,375,860
Exchangeable units	197,796	323,173
Deferred tax liability	348,755	409,381
Accounts payable and accrued liabilities	369,186	281,595
Liabilities classified as held for sale	-	49,416
	7,284,053	7,439,425
Unitholders' equity	6,071,391	7,043,917
	\$13,355,444	\$14,483,342

ASSETS

Real Estate Assets:

Change in Investment Properties (in thousands of Canadian dollars)	REIT's Financial Statements	Plus: equity accounted investments	REIT's proportionate share ⁽¹⁾
Opening balance, January 1, 2020	\$11,988,347	\$1,921,820	\$13,910,167
Acquisitions, including transaction costs	33,506	23,480	56,986
Transfer of investment property from equity accounted investments	15,665	(15,665)	-
Dispositions	(22,145)	(8,075)	(30,220)
Transfer of investment properties to assets classified as held for sale	(219,050)	(11,093)	(230,143)
Transfer of investment properties to properties under development	(665)	-	(665)
Operating capital:			
Capital expenditures	52,980	1,894	54,874
Leasing expenses and tenant inducements	49,927	779	50,706
Redevelopment (including capitalized interest)	77,867	4,778	82,645
Amortization of tenant inducements and straight-lining of contractual rents	13,905	(1,236)	12,669
Transfer of properties under development that have reached substantial completion to investment properties	436,400	42,553	478,953
Change in right-of-use asset ⁽²⁾	-	(2,432)	(2,432)
Fair value adjustment on real estate assets (page 34)	(1,195,958)	(55,305)	(1,251,263)
Change in foreign exchange	(81,649)	(42,117)	(123,766)
Closing balance, December 31, 2020	\$11,149,130	\$1,859,381	\$13,008,511

(1) The REIT's proportionate share is a non-GAAP measure defined in the "Non-GAAP Financial Measures" section of this MD&A.

(2) At December 31, 2020, the right-of-use asset in a leasehold interest of \$40.1 million (included in equity accounted investments) was measured at an amount equal to the corresponding lease liability.

2020 Acquisitions: Property ⁽¹⁾	Year Built	Segment	Date Acquired	Square Feet	Purchase Price (\$ Millions)	Ownership Interest Acquired
2001 Forbes St., Whitby, ON	1986	Industrial	Jan 29, 2020	93,330	\$6.6	50%
7575 Brewster Ave., Philadelphia, PA ⁽²⁾	1981	Industrial	Feb 14, 2020	81,148	15.4	49.5%
53 Yonge St., Toronto, ON	1913	Office	Nov 13, 2020	11,110	11.5	100.0%
Total				185,588	\$33.5	

(1) Square feet and purchase prices are listed at H&R's ownership interest. U.S. acquisitions have been translated to Canadian dollars at the exchange rate as at the date acquired.

(2) H&R purchased the remaining 49.5% interest it did not previously own and now owns 100% of this property.

2019 Acquisitions: Property ⁽¹⁾	Year Built	Segment	Date Acquired	Number of Residential Rental Units	Purchase Price (\$ Millions)	Ownership Interest Acquired
3512 Grande Reserve Way, Orlando, FL	2018	Residential	Jun 13, 2019	314	\$99.4	100%
510 E. Courtland St., Morton, IL ⁽²⁾	2000	Industrial	Jun 28, 2019	-	2.9	49.5%
2725 Reseda Pl., Charlotte, NC	2019	Residential	Jul 31, 2019	322	82.3	100%
Total				636	\$184.6	

(1) Purchase price is listed at H&R's ownership interest. U.S. acquisitions have been translated to Canadian dollars at the exchange rate as at the date acquired.

(2) H&R purchased the remaining 49.5% interest it did not previously own and now owns 100% of this property. The additional square footage acquired was 60,930.

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2020 Dispositions:

Property	Segment	Date Sold	Square Feet	Selling Price (\$ Millions) ⁽¹⁾	Ownership Interest Sold
8401 Memorial Ln., Plano, TX ⁽²⁾	Residential	Jan 9, 2020	362,785	\$86.5	100%
12601 South Green Dr., Houston, TX ⁽²⁾	Residential	Jan 23, 2020	219,948	31.2	100%
Canada One Outlets, Niagara Falls, ON	Retail	Apr 1, 2020	164,365	10.2	100%
220 Chemin du Tremblay, Boucherville, QC ⁽³⁾	Industrial	Apr 30, 2020	363,983	17.4	50%
111 Clarence St., Port Colborne, ON	Retail	Aug 12, 2020	14,849	1.2	100%
Total			1,125,930	\$146.5	

⁽¹⁾ U.S. dispositions have been translated to Canadian dollars at the exchange rate as at the date sold.

⁽²⁾ These properties consisted of 398 and 268 residential rental units, respectively, both of which were classified as held for sale as at December 31, 2019.

⁽³⁾ Classified as held for sale as at December 31, 2019. Square feet and selling price are based on the ownership interest disposed.

2019 Dispositions:

Property	Segment	Date Sold	Square Feet	Selling Price (\$ Millions) ⁽¹⁾	Ownership Interest Sold
2480 Rockhouse Rd., Lithia Springs, GA ⁽²⁾	Office	Jan 15, 2019	79,570	\$92.8	100%
8754 Hwy 60, Eganville, ON	Retail	Jan 21, 2019	25,296	4.2	100%
3621 Dufferin St., Toronto, ON ⁽³⁾	Office	Feb 4, 2019	-	15.4	100%
3619 61st Ave. S.E., Calgary, AB	Retail	Apr 1, 2019	40,480	10.8	100%
595 Bay St., 20 & 40 Dundas St. and 306 Yonge St., Toronto, ON	Office	Jun 6, 2019	1,059,281	640.0	100%
12101 Fountainbrook Blvd., Orlando, FL ⁽⁴⁾	Residential	Sep 25, 2019	379,588	102.4	100%
500 Palladium Dr., Kanata, ON ⁽⁵⁾	Industrial	Sep 26, 2019	139,694	24.3	50%
9320 Hwy 93, Midland, ON	Retail	Nov 14, 2019	40,000	5.4	100%
Total			1,763,909	\$895.3	

⁽¹⁾ U.S. dispositions have been translated to Canadian dollars at the exchange rate as at the date sold.

⁽²⁾ Classified as held for sale as at December 31, 2018.

⁽³⁾ Approximately 3.4 acres of excess lands adjacent to the REIT's head office in Toronto, ON.

⁽⁴⁾ Property consisted of 400 residential rental units.

⁽⁵⁾ Square feet and selling price are based on the ownership interest disposed.

Investment Properties and Properties under Development by Segment and Region:

The following tables disclose the fair values of the investment properties and properties under development by operating segment and geographic location, excluding assets held for sale:

December 31, 2020							
Operating Segment (in millions of Canadian dollars)	REIT's Financial Statements			Equity Accounted Investments			REIT's Proportionate Share ⁽¹⁾
	Investment Properties	Properties Under Development	Sub Total	Investment Properties	Properties Under Development	Sub Total	
Office	\$5,125	\$8	\$5,133	\$ -	\$ -	\$ -	\$5,133
Retail	3,083	-	3,083	840	17	857	3,940
Industrial	1,200	106	1,306	15	20	35	1,341
Residential	1,741	336	2,077	1,004	170	1,174	3,251
Total	\$11,149	\$450	\$11,599	\$1,859	\$207	\$2,066	\$13,665

(1) The REIT's proportionate share is a non-GAAP measure defined in the "Non-GAAP Financial Measures" section of this MD&A.

December 31, 2020							
Geographic Location (in millions of Canadian dollars)	REIT's Financial Statements			Equity Accounted Investments			REIT's Proportionate Share ⁽¹⁾
	Investment Properties	Properties Under Development	Sub Total	Investment Properties	Properties Under Development	Sub Total	
Ontario	\$4,009	\$106	\$4,115	\$ -	\$20	\$20	\$4,135
Alberta	2,272	-	2,272	-	-	-	2,272
Other	1,175	8	1,183	-	-	-	1,183
Canada	7,456	114	7,570	-	20	20	7,590
United States	3,693	336	4,029	1,859	187	2,046	6,075
Total	\$11,149	\$450	\$11,599	\$1,859	\$207	\$2,066	\$13,665

(1) The REIT's proportionate share is a non-GAAP measure defined in the "Non-GAAP Financial Measures" section of this MD&A.

Capitalization Rates:

The capitalization rates disclosed below are reported by segment and geographic location at the REIT's proportionate share which differs from the REIT's Financial Statements.

December 31, 2020	Office	Retail	Industrial	Residential	Total
Canada	6.65%	7.25%	5.20%	-	6.63%
United States	5.74%	6.52%	6.69%	4.60%	5.37%

December 31, 2019	Office	Retail	Industrial	Residential	Total
Canada	5.72%	6.12%	5.51%	-	5.84%
United States	5.22%	7.15%	7.52%	4.75%	5.34%

In light of the COVID-19 pandemic, the REIT has updated its assumptions used in determining the fair value of investment properties. Refer to page 7 of this MD&A for further discussion on IFRS fair value adjustments included in the Business Update.

Canadian Properties under Development:

As at December 31, 2020			At H&R's Ownership Interest			Expected Yield on Cost
(in thousands of Canadian dollars)	Ownership Interest	Number of Acres	Total Development Budget	Properties Under Development	Costs Remaining to Complete	
Current Developments:						
140 Speirs Giffen Ave., Caledon, ON ⁽¹⁾	100.0%	4.7	\$13,870	\$5,409	\$8,461	6.2%
34 Speirs Giffen Ave., Caledon, ON ⁽¹⁾	100.0%	4.9	15,533	6,017	9,516	7.4%
		9.6	\$29,403	\$11,426	\$17,977	
Future Developments:						
Industrial Lands (Remaining lands), Caledon, ON ⁽¹⁾	100.0%	117.6	-	73,984	-	
7333 Mississauga Rd. N., Mississauga, ON ⁽²⁾	100.0%	15.4	-	20,846	-	
Slate Dr., Mississauga, ON ⁽³⁾	50.0%	24.6	-	19,839	-	
3791 Kingsway, Burnaby, BC ⁽⁴⁾	50.0%	0.6	-	7,349	-	
Total		167.8	\$29,403	\$133,444	\$17,977	

(1) H&R owns approximately 144 acres of land which is being held for development for up to 2.7 million square feet of industrial space. In June 2019, construction commenced on the first three buildings totalling approximately 526,000 square feet. The first building, 205 Speirs Giffen Ave., was substantially completed and transferred from properties under development to investment properties in Q4 2020. As a result of COVID-19, H&R has temporarily suspended construction of the second and third buildings. In Q4 2020, H&R increased the expected yields on cost for both buildings due to a revision in anticipated higher rents.

(2) Expected to be developed into two industrial buildings totalling approximately 329,000 square feet.

(3) Expected to be developed into one industrial building totalling approximately 500,000 square feet.

(4) Excess lands held for future-redevelopment. These lands are adjacent to the REIT's 3777 Kingsway office tower of which it also has a 50% ownership interest.

U.S. Properties under Development:

The REIT's largest current development project in 2020 was River Landing, an urban in-fill mixed use development site in Miami, FL, which is adjacent to the Health District with approximately 1,000 feet of waterfront on the Miami River, two miles from downtown Miami. River Landing includes approximately 347,000 square feet of retail space, approximately 149,000 square feet of office space and 528 residential rental units. In Q4 2020, the commercial portion of this project reached substantial completion and was transferred from properties under development to investment properties. The residential portion of River Landing is expected to be transferred from properties under development to investment properties in Q1 2021 and is shown in the table below.

As at December 31, 2020			At H&R's Ownership Interest				Expected Yield on Cost	Expected Completion Date
(in thousands of U.S. dollars)	Ownership Interest	Number of Acres	Total Development Budget	Properties Under Development	Costs Remaining to Complete	Construction Financing Available		
Current Developments:								
River Landing - Residential, Miami, FL	100.0%	2.3	\$195,932	\$183,001	\$12,931	\$ -	4.4%	Q1 2021
Shoreline, Long Beach, CA ⁽¹⁾	31.2%	0.9	71,097	50,585	20,512	22,959	6.2%	Q3 2021
Hercules Project (Phase 2), Hercules, CA ⁽²⁾	31.7%	2.8	31,186	21,789	9,397	11,674	6.0%	Q3 2021
The Pearl, Austin, TX ⁽³⁾	33.3%	5.0	24,201	22,199	2,002	3,098	6.2%	Q3 2021
Esterra Park, Seattle, WA ⁽⁴⁾	33.3%	1.1	31,859	27,624	4,235	7,370	6.0%	Q3 2021
		12.1	\$354,275	\$305,198	\$49,077	\$45,101		
Future Developments ⁽⁵⁾		99.9	-	93,855	-	-		
Total (excluding ECHO)		112.0	\$354,275	\$399,053	\$49,077	\$45,101		

(1) 35-storey residential tower consisting of 315 luxury residential rental units and 6,450 square feet of retail space.

(2) Total project spans 38.4 acres. Construction commenced in June 2018 on Phase 1 of this project which was substantially completed and transferred to investment properties in Q4 2020. Construction commenced in March 2019 on Phase 2 of this project which will consist of 232 residential rental units. Future phases will be announced as further development information becomes available. Refer to page 20 of this MD&A for further information.

(3) Residential development consisting of 383 residential rental units which is close to major technology employers including Apple, IBM, Oracle and Samsung as well as the University of Texas at Austin and downtown Austin.

(4) Seven-storey residential tower consisting of 263 residential rental units, which is part of a larger master planned community and is adjacent to transit, Microsoft Corporation's headquarters, and future light rail which is expected to be completed in 2023.

(5) Consists of seven separate parcels of land in the United States totalling 99.9 acres. H&R has a 31.7% interest in one of the parcels amounting to U.S. \$12.1 million at H&R's ownership interest. H&R is the sole owner of the remaining six parcels.

Equity Accounted Investments:

(in thousands of Canadian dollars)	Jackson Park	ECHO	One U.S. Industrial Property	Hercules Project	The Pearl	Esterra Park	Shoreline	Slate	Other ⁽¹⁾	Total ⁽²⁾
Investment properties	\$968,706	\$839,985	\$15,393	\$35,297	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,859,381
Properties under development	-	16,822	-	43,036	28,193	35,083	64,242	19,839	-	207,215
Assets classified as held for sale	-	11,093	-	-	-	-	-	-	-	11,093
Other assets	4,563	15,098	90	213	10	32	234	-	39	20,279
Cash and cash equivalents	13,930	9,990	337	1,966	20	239	627	978	206	28,293
Debt	(626,721)	(337,601)	-	(38,375)	(16,343)	(18,792)	(23,095)	-	-	(1,060,927)
Lease liability	-	(40,084)	-	-	-	-	-	-	-	(40,084)
Other liabilities	(6,575)	(43,966)	(224)	(4,881)	(2,583)	(3,230)	(7,052)	105	(1,376)	(69,782)
December 31, 2020	\$353,903	\$471,337	\$15,596	\$37,256	\$9,297	\$13,332	\$34,956	\$20,922	(\$1,131)	\$955,468
December 31, 2019	\$410,087	\$468,857	\$37,169	\$33,629	\$9,517	\$13,647	\$30,989	-	(\$1,122)	\$1,002,773

(1) Relates to previous equity accounted properties that have been sold.

(2) Each of these line items represent the REIT's proportionate share of equity accounted investments which are reconciled to the total equity accounted investments per the REIT's Financial Statements. This is a non-GAAP measure defined in the "Non-GAAP Financial Measures" section of this MD&A.

Jackson Park

Jackson Park, the 1,871 luxury residential rental unit development in Long Island City, NY, in which H&R has a 50% ownership interest, reached substantial completion and was transferred from properties under development to investment properties in Q1 2019.

ECHO

H&R owns a 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, primarily in Pennsylvania and Ohio. ECHO reports its financial results to H&R one month in arrears. ECHO's financial information has been disclosed as at November 30, 2020 and November 30, 2019, respectively.

As at November 30, 2020, H&R's interest in ECHO consists of 243 investment properties totalling approximately 2.9 million square feet and 10 properties under development. Giant Eagle, Inc., a supermarket chain in the United States is ECHO's largest tenant with 201 locations encompassing approximately 1.6 million square feet at H&R's ownership interest with an average lease term to maturity of 10.6 years. Giant Eagle represents approximately 59.7% of revenue earned by ECHO.

U.S. Industrial Properties

As at December 31, 2020, H&R owns a 50.5% interest in one industrial property through a joint venture with its partners, which is located in the United States (December 31, 2019 - three properties located in the United States).

In February 2020, H&R purchased the remaining 49.5% interest in 7575 Brewster Ave., Philadelphia, PA for \$15.4 million. As H&R now owns 100% of this property, it is now consolidated in the REIT's Financial Statements.

In August 2020, H&R sold its 50.5% interest in 200 Rock Run Rd., Fairless Hills, PA totalling 54,654 square feet for \$4.2 million.

During the year ended December 31, 2019, H&R sold its 50.5% interest in the following properties:

Property ⁽¹⁾⁽²⁾	Segment	Date Sold	Square Feet	Selling Price (\$ Millions)	Ownership Interest Sold
1801 Blaintown Rd., Rock Springs, WY	Industrial	Jun 11, 2019	114,453	\$14.9	50.5%
260 Jordan Rd., Tifton, GA	Industrial	Jun 18, 2019	341,396	12.0	50.5%
Total			455,849	\$26.9	

(1) Square feet and selling price are based on the ownership interest disposed.

(2) U.S. dispositions have been translated to Canadian dollars at the exchange rate as at the date sold.

In addition, in 2019, H&R purchased the remaining 49.5% interest in 510 E. Courtland St., Morton, IL for \$2.9 million. As H&R owns 100% of this property, it is now consolidated in the REIT's Financial Statements.

Hercules Project

H&R has a 31.7% non-managing ownership interest in 38.4 acres of land located in Hercules, CA, adjacent to San Pablo Bay, northeast of San Francisco, for the future development of residential rental units. This waterfront, multi-phase, master-planned, in-fill mixed-use development surrounds a future intermodal transit centre, including train and ferry service, and is adjacent to an 11-acre waterfront future regional park. The initial investment to purchase the land was approximately U.S. \$10.0 million (at H&R's ownership interest). As at December 31, 2020, H&R's equity investment was approximately U.S. \$27.6 million.

Phase 1 of the Hercules Project, known as "The Exchange at Bayfront", consists of 172 residential rental units, including lofts and townhomes and 13,762 square feet of ground level retail space. The four-storey podium project sits on 2.2 acres over a one-level subterranean parking garage. Construction commenced in June 2018 and substantial completion was achieved in Q4 2020, resulting in the REIT transferring this property from properties under development to investment properties. As at December 31, 2020, 120 leases had been entered into and occupancy was 68.0%. As at December 31, 2020, The Exchange at Bayfront, at the 100% level, has been valued at approximately U.S. \$87.8 million compared to costs to date of approximately U.S. \$81.3 million, resulting in a fair value gain of U.S. \$6.5 million since the start of the project. The annualized unlevered yield on budgeted cost is approximately 5.4% and the project was completed on budget.

Phase 2 of the Hercules Project, known as "The Grand at Bayfront", will consist of 232 residential rental units including a state-of-the-art fitness centre, bike shop, residents lounge and sporting club. It is situated on 2.8 acres of land and is located north/northeast of Phase 1. Construction commenced in March

2019. The total budget for Phase 2 is approximately U.S. \$98.4 million and construction financing of approximately U.S. \$65.4 million was secured in March 2019, both at the 100% level. As at December 31, 2020, U.S. \$28.5 million has been drawn on this construction facility at the 100% level.

The remaining land parcels totalling 33.4 acres are secured against a U.S. \$12.2 million land loan at the 100% level. Future phases will be announced as further development information becomes available.

The Pearl

H&R has a 33.3% non-managing ownership interest in approximately 5.0 acres of land in Austin, TX for the development of 383 residential rental units which will be known as "The Pearl". This residential development site is close to major technology employers including Apple, IBM, Oracle and Samsung, as well as the University of Texas at Austin and downtown Austin. Construction commenced in October 2018. The total budget for this project is approximately U.S. \$72.2 million and construction financing of U.S. \$47.9 million was secured in October 2018, both at the 100% level. As at December 31, 2020, H&R's equity investment was approximately U.S. \$7.3 million and U.S. \$38.6 million had been drawn on the construction facility, at the 100% level.

Esterra Park

H&R has a 33.3% non-managing ownership interest in a residential development site in Seattle, WA for the development of 263 residential rental units which will be known as "Esterra Park". This residential development site is part of a larger master planned community and is adjacent to Microsoft Corporation's headquarters, bus transit and future light rail which is expected to be completed in 2023. Construction commenced in November 2018. The total budget for this project is approximately U.S. \$95.7 million and construction financing of U.S. \$66.5 million was secured in October 2018, both at the 100% level. As at December 31, 2020, H&R's equity investment was approximately U.S. \$10.5 million and U.S. \$44.4 million had been drawn on the construction facility, at the 100% level.

Shoreline

H&R has a 31.2% non-managing ownership interest in a residential development site which will consist of a 315 luxury residential rental unit tower with 6,450 square feet of retail space. Located in Long Beach, CA, "Shoreline Gateway" will become the tallest residential tower in Long Beach with 35 floors enjoying views overlooking the Pacific Ocean. Construction commenced in November 2018. The total budget for this project is approximately U.S. \$227.1 million and construction financing of U.S. \$132.0 million was secured in December 2018, both at the 100% level. As at December 31, 2020, H&R's equity investment was approximately U.S. \$27.5 million and U.S. \$58.3 million had been drawn on the construction facility, at the 100% level.

Slate Drive

In November 2020, H&R acquired a 50% interest in 24.6 acres of land in Mississauga, ON which is expected to be developed into one industrial building totalling approximately 500,000 square feet. The REIT's partner contributed the land valued at approximately \$36.9 million, and H&R contributed \$2.1 million with the balance of capital to be contributed as development costs are incurred.

Assets and Liabilities Classified as Held for Sale

As at December 31, 2020, H&R had one U.S. office property and a 50% ownership interest in one industrial property with an aggregate fair value of \$219.1 million classified as held for sale. As at December 31, 2019, H&R had two U.S. residential properties and a 50% ownership interest in one industrial property with total assets of \$135.7 million and liabilities of \$49.4 million classified as held for sale.

Other Assets

(in thousands of Canadian dollars)	December 31, 2020	December 31, 2019
Mortgages receivable	\$425,486	\$555,030
Prepaid expenses and sundry assets	63,058	49,691
Accounts receivable - net of provision for expected credit loss of \$15,135 (2019 - \$1,073)	19,618	11,360
Restricted cash	7,732	7,931
Derivative instruments	3,194	752
	\$519,088	\$624,764

Mortgages receivable decreased by \$129.5 million to \$425.5 million as at December 31, 2020, primarily due to the repayment of a mortgage receivable that was issued as part of the sale of the Atrium in June 2019.

Accounts receivable increased by \$8.3 million to \$19.6 million as at December 31, 2020, primarily due to retail tenants who were impacted by COVID-19. As at December 31, 2020, accounts receivable amounted to 1.8% of annual rentals from investment properties compared to 1.0% as at December 31, 2019. Refer to page 8 of this MD&A for further discussion on H&R's bad debt expense.

Refer to the "Derivative Instruments" section of this MD&A for further information on H&R's derivative instruments.

LIABILITIES AND UNITHOLDERS' EQUITY

	December 31, 2020	December 31, 2019
Debt to total assets per the REIT's Financial Statements ⁽¹⁾	47.7%	44.4%
Debt to total assets at the REIT's proportionate share ⁽¹⁾⁽²⁾	51.1%	47.7%
Unencumbered assets ⁽³⁾ (in thousands of Canadian dollars)	\$3,666,464	\$3,959,871
Unsecured debt ⁽³⁾ (in thousands of Canadian dollars)	\$2,470,914	\$2,399,902
Unencumbered asset to unsecured debt coverage ratio ⁽³⁾	1.48	1.65
Interest coverage ratio ⁽²⁾	3.12	3.05
Weighted average interest rate of debt ⁽¹⁾	3.6%	3.8%
Weighted average term to maturity of debt (in years) ⁽¹⁾	3.5	3.9
Weighted average interest rate of debt at the REIT's proportionate share ⁽¹⁾⁽²⁾	3.6%	3.8%
Weighted average term to maturity of debt (in years) at the REIT's proportionate share ⁽¹⁾⁽²⁾	4.0	4.6

(1) Debt includes mortgages payable, debentures payable, unsecured term loans and lines of credit.

(2) These are non-GAAP measures. Refer to the "Non-GAAP Financial Measures" section of this MD&A.

(3) Unencumbered assets are investment properties and properties under development without encumbrances for mortgages or lines of credit. Unsecured debt includes debentures payable, unsecured term loans and unsecured lines of credit.

Debt

H&R's debt consists of the following items:

(in thousands of Canadian dollars)	December 31, 2020	December 31, 2019
Mortgages payable	\$3,623,652	\$3,630,858
Debentures payable	1,568,817	1,257,731
Unsecured term loans	688,029	692,229
Lines of credit	487,818	795,042
	\$6,368,316	\$6,375,860

(in thousands of Canadian dollars)	Mortgages Payable	Debentures Payable	Unsecured Term Loans	Lines of Credit	Total
Opening balance, January 1, 2020	\$3,630,858	\$1,257,731	\$692,229	\$795,042	\$6,375,860
Scheduled amortization payments	(122,857)	-	-	-	(122,857)
Debt repayment and redemptions	(70,928)	(337,500)	-	-	(408,428)
New debt	214,772	646,703	-	-	861,475
Net repayments	-	-	-	(295,959)	(295,959)
Effective interest rate accretion	2,712	1,883	-	-	4,595
Change in foreign exchange	(30,905)	-	(4,200)	(11,265)	(46,370)
Closing balance, December 31, 2020	\$3,623,652	\$1,568,817	\$688,029	\$487,818	\$6,368,316

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Mortgages Payable	Periodic Amortized Principal (\$000's)	Principal on Maturity (\$000's)	Total Principal (\$000's)	% of Total Principal	Weighted Average Interest Rate on Maturity
Future Mortgage Principal Payments					
2021	\$102,808	\$836,727	\$939,535	25.8	3.9%
2022	65,080	543,465	608,545	16.7	3.9%
2023	57,568	392,160	449,728	12.4	3.9%
2024	51,677	42,827	94,504	2.6	3.2%
2025	43,137	104,912	148,049	4.1	3.9%
Thereafter			1,396,602	38.4	
			3,636,963	100%	
Financing costs and mark-to-market adjustments arising on acquisitions ⁽¹⁾			(13,311)		
Total balance outstanding as at December 31, 2020			\$3,623,652		

⁽¹⁾ 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 costs over the life of the applicable mortgage using the effective interest rate method. Financing costs are deducted from the REIT's mortgages payable balances and are recognized in finance costs over the life of the applicable mortgage.

The mortgages outstanding as at December 31, 2020 bear interest at a weighted average rate of 4.0% (December 31, 2019 – 4.1%) and mature between 2021 and 2032 (December 31, 2019 – maturing between 2020 and 2032). The weighted average term to maturity of the REIT's mortgages is 4.0 years (December 31, 2019 – 4.8 years). For a further discussion of liquidity refer to the "Funding of Future Commitments" of this MD&A. For a further discussion of interest rate risk, refer to the "Risks and Uncertainties" section of this MD&A.

Debentures Payable				December 31, 2020	December 31, 2019
(in thousands of Canadian Dollars)	Maturity	Contractual Interest Rate	Effective Interest Rate	Principal Amount	Carrying Value
Senior Debentures					
Series P Senior Debentures ⁽¹⁾	February 13, 2020	3.67%	⁽¹⁾	\$ -	\$ -
Series F Senior Debentures ⁽²⁾	March 2, 2020	4.45%	4.58%	-	-
Series L Senior Debentures	May 6, 2022	2.92%	3.11%	325,000	323,776
Series O Senior Debentures	January 23, 2023	3.42%	3.44%	250,000	249,360
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	348,758
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	398,105
Series R Senior Debentures	June 2, 2026	2.91%	3.00%	250,000	248,818
		3.39%	3.49%	\$1,575,000	\$1,568,817
					\$1,257,731

⁽¹⁾ Denominated as \$125,000 U.S. dollars and bore interest at a rate equal to the 3-month London Interbank Offered Rate plus 79 basis points. The REIT entered into an interest rate swap on the Series P senior debentures to fix the interest rate at 3.67% per annum. In February 2020, the REIT repaid all of its Series P senior debentures upon maturity for a cash payment of U.S. \$125.0 million.

⁽²⁾ In March 2020, the REIT repaid all of its Series F senior debentures upon maturity for a cash payment of \$175.0 million.

In June 2020, H&R issued \$400.0 million principal amount of 4.071% Series Q Senior Debentures maturing June 16, 2025.

In December 2020, H&R issued \$250.0 million principal amount of 2.906% Series R Senior Debentures maturing June 2, 2026.

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Unsecured Term Loans (in thousands of Canadian Dollars)	Maturity Date	December 31, 2020	December 31, 2019
H&R unsecured term loan #1 ⁽¹⁾	March 17, 2021	\$188,029	\$192,229
H&R unsecured term loan #2 ⁽²⁾	March 7, 2024	250,000	250,000
H&R unsecured term loan #3 ⁽³⁾	January 6, 2026	250,000	250,000
		\$688,029	\$692,229

(1) The total facility as at December 31, 2020 is \$200.0 million, plus a 3% allowance relating to the fluctuation of the foreign exchange rate, and can be drawn in either Canadian or U.S. dollars. The REIT entered into an interest rate swap to fix the interest rate at 2.56% per annum on U.S. \$130.0 million of the U.S. dollar denominated borrowing of this facility. The swap matures March 17, 2021.

(2) In November 2020, the interest rate swap was amended to fix the interest rate at 3.17% per annum and the maturity date was extended to May 7, 2030. Previously, the interest rate was fixed at 3.33% per annum with a maturity date of March 7, 2026.

(3) The REIT entered into an interest rate swap to fix the interest rate at 3.91% per annum. The swap matures on January 6, 2026.

Lines of Credit (in thousands of Canadian Dollars)	Maturity Date	Total Facility	Amount Drawn	Outstanding Letters of Credit	Available Balance
Revolving unsecured operating lines of credit:					
H&R revolving unsecured line of credit #1	April 17, 2021	\$500,000	\$ -	\$ -	\$500,000
H&R revolving unsecured line of credit #2	September 20, 2022	150,000	(144,620)	-	5,380
H&R revolving unsecured line of credit #3	January 31, 2023	200,000	(65,230)	-	134,770
H&R revolving unsecured line of credit #4	September 20, 2023	350,000	(4,218)	(1,985)	343,797
H&R revolving unsecured letter of credit facility		60,000	-	(29,707)	30,293
Sub-total		1,260,000	(214,068)	(31,692)	1,014,240

Revolving secured operating lines of credit⁽¹⁾					
H&R and CrestPSP revolving secured line of credit	April 30, 2021	62,500	(51,500)	(105)	10,895
Primaris revolving secured line of credit	December 31, 2021	300,000	(222,250)	-	77,750
Sub-total		362,500	(273,750)	(105)	88,645

December 31, 2020	\$1,622,500	(\$487,818)	(\$31,797)	\$1,102,885
December 31, 2019	\$1,122,500	(\$795,042)	(\$36,881)	\$290,577

(1) Secured by certain investment properties.

The lines of credit can be drawn in either Canadian or U.S. dollars and bear interest at a rate approximating the prime rate of a Canadian chartered bank.

Exchangeable Units

Certain of H&R's subsidiaries have exchangeable units outstanding which are puttable instruments where H&R has a contractual obligation to issue Units to participating vendors upon redemption. These puttable instruments are classified as a liability under IFRS and are measured at fair value through profit or loss.

At the end of each period the fair value is determined by using the quoted price of Units on the TSX as the exchangeable units are exchangeable into Units at the option of the holder. Holders of all exchangeable units are entitled to receive the economic equivalent of distributions on a per unit amount equal to a per Unit amount provided to holders of Units.

The following number of exchangeable units are issued and outstanding:	Number of Exchangeable Units	Quoted Price of Units	Amounts per the REIT's Financial Statements (\$000's)
As at December 31, 2020	14,883,065	\$13.29	\$197,796
As at December 31, 2019	15,316,239	\$21.10	\$323,173

In August 2020, 433,174 exchangeable units were exchanged for Units. As a subsidiary of the REIT previously held 433,174 Units to mirror these exchangeable units, the number of outstanding Units did not increase as a result of this exchange.

Deferred Tax Liability

H&R has certain subsidiaries in the United States that are subject to tax on their taxable income at a combined federal and state tax rate of approximately 23.5% in 2020 (2019 – 23.6%).

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

(in millions of Canadian dollars)	December 31, 2020	December 31, 2019
Deferred tax assets:		
Net operating losses	\$73.3	\$24.9
Accounts payable and accrued liabilities	0.7	0.9
Other assets	2.8	1.0
	76.8	26.8
Deferred liabilities:		
Investment properties	303.0	309.7
Equity accounted investments	122.6	126.5
	425.6	436.2
Deferred tax liability	(\$348.8)	(\$409.4)

The deferred tax liability relating to the investment properties is derived on the basis that the U.S. investment properties will be sold at their current fair value. The tax liability will only be realized upon an actual disposition of a property that is not subject to a Section 1031 property exchange. Deferred tax liability decreased by \$60.6 million from \$409.4 million as at December 31, 2019 to \$348.8 million as at December 31, 2020 primarily due to certain income tax regulations released by the Internal Revenue Service ("IRS") in July 2020 resulting in the REIT recognizing a deferred tax recovery of \$46.5 million during the year ended December 31, 2020.

Unitholders' Equity

Unitholders' equity decreased by \$972.5 million from approximately \$7.0 billion as at December 31, 2019 to approximately \$6.1 billion as at December 31, 2020. The decrease is primarily due to the net loss, other comprehensive loss and distributions paid to unitholders. The total comprehensive loss to unitholders was primarily due to the negative fair value adjustments on real estate assets discussed on page 7 of this MD&A.

Normal Course Issuer Bid ("NCIB")

On December 10, 2019, the REIT received approval from the TSX for the renewal of its NCIB, which allowed the REIT to purchase for cancellation up to a maximum of 15.0 million Units on the open market until December 16, 2020. During the years ended December 31, 2020 and 2019, the REIT did not purchase and cancel any Units.

	December 31, 2020	December 31, 2019
Unitholders' Equity per Unit and NAV per Unit		
Unitholders' equity	\$6,071,391	\$7,043,917
Exchangeable units	197,796	323,173
Deferred tax liability	348,755	409,381
Total	\$6,617,942	\$7,776,471
Units outstanding (in thousands of Units)	286,863	286,690
Exchangeable units outstanding (in thousands of Units)	14,883	14,883
Total (in thousands of Units)	301,746	301,573
Unitholders' equity per Unit ⁽¹⁾	\$21.16	\$24.57
NAV per Unit ⁽²⁾	\$21.93	\$25.79
Unit Price	\$13.29	\$21.10

⁽¹⁾ Unitholders' equity per Unit is calculated by dividing Unitholders' equity by Units outstanding.

⁽²⁾ This is a Non-GAAP measure. Refer to the "Non-GAAP Financial Measures" section of this MD&A.

Unitholders' equity per Unit and NAV per Unit decreased by \$3.41 per Unit and \$3.86 per Unit, respectively, from December 31, 2019 to December 31, 2020 primarily due to the negative fair value adjustment of certain office and retail properties of approximately \$1.2 billion (further discussed on page 7 of this MD&A). Unitholders' equity per Unit and NAV per Unit further declined due to the weakening of the U.S. dollar which was \$1.30 for each U.S. \$1.00 at December 31, 2019 compared to \$1.27 for each U.S. \$1.00 at December 31, 2020.

RESULTS OF OPERATIONS

The following foreign exchange rates have been used in the results of operations when converting U.S. dollars to Canadian dollars except where otherwise noted:

	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
For each U.S. \$1.00	\$1.31 CAD	\$1.33 CAD	\$1.34 CAD	\$1.33 CAD

(in thousands of Canadian dollars)	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
Property operating income:				
Rentals from investment properties	\$277,509	\$282,221	\$1,098,680	\$1,149,450
Property operating costs	(93,893)	(97,446)	(435,014)	(438,475)
	183,616	184,775	663,666	710,975
Net income (loss) from equity accounted investments	(44,697)	36,958	(16,986)	31,201
Finance costs - operations	(56,875)	(61,107)	(228,869)	(256,496)
Finance income	7,131	6,012	33,399	15,036
Trust (expenses) recoveries	(9,940)	8,372	(14,297)	(27,293)
Fair value adjustment on financial instruments	(44,084)	42,607	82,974	(19,483)
Fair value adjustment on real estate assets	69,960	(43,689)	(1,195,958)	(103,903)
Gain (loss) on sale of real estate assets	(62)	(11)	(2,229)	25,632
Net income (loss) before income taxes	105,049	173,917	(678,300)	375,669
Income tax (expense) recovery	6,595	(10,515)	53,741	(35,380)
Net income (loss)	111,644	163,402	(624,559)	340,289
Other comprehensive loss:				
Items that are or may be reclassified subsequently to net income (loss)	(146,307)	(43,918)	(86,662)	(125,326)
Total comprehensive income (loss) attributable to unitholders	(\$34,663)	\$119,484	(\$711,221)	\$214,963

The primary reason for the decrease in rentals from investment properties is net disposition activity over the past two years. The REIT completed approximately \$1.0 billion of asset sales compared to \$218.1 million of acquisitions over the past two years, substantially repositioning its portfolio and enhancing its internal growth profile. H&R continues to actively reallocate capital through property dispositions to fund value-creating developments, expand its residential rental platform and strengthen its balance sheet.

Property operating income also decreased for the three months and year ended December 31, 2020 compared to the respective 2019 periods due to bad debt expense as a result of the impact of COVID-19 further discussed on page 8 of this MD&A, which predominantly impacted H&R's retail segment.

Net income (loss) from equity accounted investments for the three months and year ended December 31, 2020 compared to the respective 2019 periods decreased by \$81.7 million and \$48.2 million, respectively, primarily due to a fair value decrease to Jackson Park in Q4 2020 and a decrease in property operating income from Jackson Park, both as a result of lower than average lease renewals and prospective tenant inquiries as a result of COVID-19.

Net income (loss) before income taxes decreased by \$68.9 million for the three months ended December 31, 2020 compared to the respective 2019 period, primarily due to a fair value adjustment on financial instruments and a decrease from equity accounted investments discussed above, partially offset by positive fair value adjustments on real estate assets (primarily industrial properties), which is further discussed on page 7 of this MD&A.

Net income (loss) before income taxes decreased by approximately \$1.1 billion for the year ended December 31, 2020 compared to the respective 2019 period primarily due to the following: (i) a decrease in fair value adjustments of real estate assets (primarily certain office and retail properties) further discussed on page 7 of this MD&A of approximately \$1.2 billion; (ii) a decrease in property operating income discussed above; (iii) the decrease in net income (loss) from equity accounted investments discussed above. This was partially offset by fair value adjustments on financial instruments.

PROPERTY OPERATING INCOME

Property operating income consists of rentals from investment properties less property operating costs. Management believes that property operating income is a useful measure for investors in assessing the performance of H&R's properties before financing costs and other sources of income and expenditures which are not directly related to the day-to-day operations of a property. Same-Asset property operating income (cash basis) adjusts property operating income (including property operating income from equity accounted investments on a proportionately consolidated basis) to exclude straight-lining of contractual rent and realty taxes accounted for under IFRIC 21. "Same-Asset" refers to those properties owned by H&R for the entire two-year period ended December 31, 2020. It excludes acquisitions, business combinations, dispositions, transfers of properties under development to investment properties and transfers from investment properties to properties under development during the two-year period ended December 31, 2020 (collectively, "Transactions"). Management believes that this measure is useful for investors as it adjusts property operating income (including property operating income from equity accounted investments on a proportionately consolidated basis) for non-cash items which allows investors to better understand period-over-period changes due to occupancy, rental rates, realty taxes and operating costs, before evaluating the changes attributable to Transactions. Furthermore, it is also used as a key input in determining the value of investment properties.

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Rentals	\$277,509	\$282,221	(\$4,712)	\$1,098,680	\$1,149,450	(\$50,770)
Property operating costs (excluding bad debt expense)	(90,658)	(96,616)	5,958	(395,306)	(436,332)	41,026
Property operating income (excluding bad debt expense)	186,851	185,605	1,246	703,374	713,118	(9,744)
Bad debt expense	(3,235)	(830)	(2,405)	(39,708)	(2,143)	(37,565)
Property operating income	183,616	184,775	(1,159)	663,666	710,975	(47,309)
Adjusted for:						
Proportionate share of property operating income from equity accounted investments ⁽¹⁾	18,376	25,099	(6,723)	84,698	93,856	(9,158)
Straight-lining of contractual rent at the REIT's proportionate share ⁽¹⁾	(4,540)	(1,950)	(2,590)	(10,541)	(8,848)	(1,693)
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share ⁽¹⁾	(12,229)	(12,436)	207	-	-	-
Property operating income (cash basis) from Transactions at the REIT's proportionate share ⁽¹⁾	(4,599)	(5,587)	988	(20,915)	(45,502)	24,587
Same-Asset property operating income (cash basis) ⁽²⁾	\$180,624	\$189,901	(\$9,277)	\$716,908	\$750,481	(\$33,573)

⁽¹⁾ The REIT's proportionate share is a non-GAAP measure defined in the "Non-GAAP Financial Measures" section of this MD&A.

⁽²⁾ Same-Asset property operating income (cash basis) is a non-GAAP measure defined in the "Non-GAAP Financial Measures" section of this MD&A.

Property operating income decreased by \$47.3 million for the year ended December 31, 2020 compared to the respective 2019 period primarily due to the following: (i) an increase in bad debt expense as a result of the impact of COVID-19; (ii) properties sold; and (iii) a decrease in lease termination fees. This was partially offset by the following: (i) a decrease in operating expenses as a result of the impact of properties being closed or partially closed due to COVID-19; (ii) an increase in revenue from rental rate growth and the stabilization of various assets in the portfolio; and (iii) an increase in property operating income due to the strengthening of the U.S. dollar.

Refer to page 8 of this MD&A for a further breakdown of the REIT's bad debt expense. For a list of property dispositions, refer to page 16 of this MD&A.

Property operating income from equity accounted investments for the three months and year ended December 31, 2020 compared to the respective 2019 periods decreased by \$6.7 million and \$9.2 million, respectively, primarily due to Jackson Park, which has been negatively impacted by lower than average lease renewals and prospective tenant inquiries as a result of COVID-19. H&R believes Jackson Park's decline is temporary and expects operating fundamentals to improve in the second half of 2021. In addition, property operating income decreased for both periods noted above due to higher bad debt expense as a result of the impact of COVID-19 on ECHO and properties sold.

SEGMENTED INFORMATION

Operating Segments and Geographic Locations:

H&R has four reportable operating segments (Office, which also includes the REIT's head office, Retail (operating as Primaris), Industrial and Residential (operating as Lantower Residential)), in two geographical locations (Canada and the United States). The operating segments derive their revenue primarily from rental income from leases. The 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") of the REIT. The CEO measures and evaluates the performance of the REIT based on property operating income on a proportionately consolidated basis for the REIT's equity accounted investments.

The Office segment consists of a portfolio of 28 properties throughout Canada and five properties in select markets in the United States, aggregating 10.7 million square feet, at H&R's ownership interest, with an average lease term to maturity of 12.2 years as at December 31, 2020. The Office portfolio is leased on a long-term basis to creditworthy tenants, with 85.5% of office revenue from tenants with investment grade ratings. With a very long average lease term and high credit tenants, this segment tends to generate very stable, gradual growth in property operating income driven by contractual rental rate increases, and to a lesser extent, lease renewals.

The Retail segment consists of a portfolio of 67 properties throughout Canada which includes enclosed shopping centres, single-tenant retail properties and multi-tenant retail plazas as well as 16 single-tenant and one multi-tenant retail property in the United States. In addition, it also holds a 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. In total, this segment includes 67 properties in Canada and 260 properties in the United States comprising 13.7 million square feet, at H&R's ownership interest, with an average lease term to maturity of 6.9 years as at December 31, 2020.

The Industrial segment consists of 84 industrial properties throughout Canada and three properties in the United States comprising 9.3 million square feet, at H&R's ownership interest, with an average lease term to maturity of 6.4 years as at December 31, 2020.

The Residential segment consists of 23 residential properties in select markets in the United States comprising 7,831 residential rental units, at H&R's ownership interest, as at December 31, 2020. The investment policy of Lantower Residential is to acquire or develop class A properties in U.S. Sun Belt cities where there is strong population and employment growth and to develop properties with partners in gateway cities.

Further disclosure of segmented information for property operating income can be found in the REIT's Financial Statements.

(in thousands of Canadian dollars)	Property operating income						Occupancy	
	Three months ended December 31			Year ended December 31			As at December 31	
	2020	2019	% Change	2020	2019	% Change	2020	2019
Operating Segment:								
Office ⁽¹⁾	\$91,248	\$91,882	(0.7%)	\$358,961	\$377,723	(5.0%)	99.6%	98.6%
Retail	64,423	65,607	(1.8%)	218,047	251,153	(13.2%)	90.3%	91.5%
Industrial	15,854	14,825	6.9%	62,488	61,385	1.8%	97.5%	97.2%
Residential	30,467	37,560	(18.9%)	108,868	114,570	(5.0%)	88.1%	90.7%
The REIT's proportionate share	201,992	209,874	(3.8%)	748,364	804,831	(7.0%)	94.0%	94.5%
Less: equity accounted investments	(18,376)	(25,099)	(26.8%)	(84,698)	(93,856)	(9.8%)	89.6%	97.2%
The REIT's Financial Statements	\$183,616	\$184,775	(0.6%)	\$663,666	\$710,975	(6.7%)	94.5%	94.2%
Geographic Location:								
Canada ⁽²⁾	\$126,755	\$126,323	0.3%	\$472,720	\$523,733	(9.7%)	95.7%	94.8%
United States ⁽²⁾	75,237	83,551	(10.0%)	275,644	281,098	(1.9%)	90.6%	94.0%
The REIT's proportionate share	201,992	209,874	(3.8%)	748,364	804,831	(7.0%)	94.0%	94.5%
Less: equity accounted investments	(18,376)	(25,099)	(26.8%)	(84,698)	(93,856)	(9.8%)	89.6%	97.2%
The REIT's Financial Statements	\$183,616	\$184,775	(0.6%)	\$663,666	\$710,975	(6.7%)	94.5%	94.2%

(1) Includes the REIT's head office.

(2) Property operating income relating to corporate entities has been included in Canada for Canadian properties and the United States for U.S. properties.

The average exchange rate for the three months ended December 31, 2020 was \$1.31 for each U.S. \$1.00 (Q4 2019 - \$1.33). The average exchange rate for the year ended December 31, 2020 was \$1.34 for each U.S. \$1.00 (December 31, 2019 - \$1.33). Property operating income across all operating segments was negatively impacted by the weakening of the U.S. dollar for the three months ended December 31, 2020 and was positively impacted by the strengthening of the U.S. dollar for the year ended December 31, 2020 compared to the respective 2019 periods. The following explanations for changes in property operating income are in addition to the impact of foreign exchange.

Property operating income from office properties decreased by 5.0% for the year ended December 31, 2020 compared to the respective 2019 period, primarily due to properties sold throughout 2019 and lease termination fees of nil in 2020 compared to \$5.9 million in 2019.

Property operating income from retail properties decreased by 1.8% and 13.2%, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods, primarily due to bad debt expense as a result of the impact of COVID-19. This was partially offset by a decrease in operating expenses as a result of the impact of properties being closed or partially closed due to COVID-19. Refer to page 8 of this MD&A for a further breakdown of the REIT's bad debt expense.

Property operating income from industrial properties increased by 6.9% and 1.8%, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods, primarily due to an increase in Same-Asset occupancy and increased rental rates on lease renewals. The increase in property operating income from industrial properties for the year ended December 31, 2020 compared to the respective 2019 period was partially offset by properties sold.

Property operating income from residential properties decreased by 18.9% and 5.0% for the three months and year ended December 31, 2020 compared to the respective 2019 periods, primarily due to Jackson Park in New York, which has been negatively impacted by lower than average lease renewals and prospective tenant inquiries as a result of COVID-19, as well as properties sold. H&R believes Jackson Park's decline is temporary and expects operating fundamentals to improve in the second half of 2021. Excluding Jackson Park, property operating income from residential properties decreased by 4.4% for the three months ended December 31, 2020 compared to the respective 2019 period, primarily due to properties sold. Excluding Jackson Park, property operating income from residential properties increased by 0.3% for the year ended December 31, 2020 compared to the respective 2019 period, primarily due to an increase in revenue from rental rate growth and the stabilization of various assets in the portfolio, partially offset by an increase in bad debt expense as a result of the impact of COVID-19 as well as properties sold.

The following segmented information has been presented at the REIT's proportionate share which is a non-GAAP measure defined in the "Non-GAAP Financial Measures" section of this MD&A:

(in thousands of Canadian dollars)	Same-Asset property operating income (cash basis) ⁽¹⁾						Occupancy (same asset)	
	Three months ended December 31			Year ended December 31			As at December 31	
	2020	2019	% Change	2020	2019	% Change	2020	2019
Operating Segment:								
Office ⁽²⁾	\$82,327	\$85,200	(3.4%)	\$342,767	\$348,327	(1.6%)	99.7%	98.6%
Retail	62,403	63,475	(1.7%)	214,724	247,512	(13.2%)	92.0%	91.8%
Industrial	14,318	13,542	5.7%	57,440	54,304	5.8%	98.4%	97.1%
Residential	21,576	27,684	(22.1%)	101,977	100,338	1.6%	88.5%	91.6%
The REIT's proportionate share (page 28)	\$180,624	\$189,901	(4.9%)	\$716,908	\$750,481	(4.5%)	95.0%	94.8%
Geographic Location:								
Ontario ⁽³⁾	\$52,411	\$52,178	0.4%	\$203,175	\$215,882	(5.9%)	97.3%	95.3%
Alberta	50,984	50,981	-%	189,814	200,885	(5.5%)	93.3%	94.2%
Other Canada	21,145	19,756	7.0%	68,165	74,641	(8.7%)	96.9%	94.9%
Total – Canada	124,540	122,915	1.3%	461,154	491,408	(6.2%)	96.0%	94.9%
United States ⁽³⁾	56,084	66,986	(16.3%)	255,754	259,073	(1.3%)	92.7%	94.7%
The REIT's proportionate share (page 28)	\$180,624	\$189,901	(4.9%)	\$716,908	\$750,481	(4.5%)	95.0%	94.8%
United States in U.S. dollars:								
Office ⁽²⁾	\$14,092	\$16,635	(15.3%)	\$64,425	\$66,693	(3.4%)	100.0%	100.0%
Retail	11,815	12,507	(5.5%)	48,252	51,031	(5.4%)	95.9%	97.0%
Industrial	504	407	23.8%	2,082	1,622	28.4%	100.0%	100.0%
Residential	16,546	20,815	(20.5%)	76,102	75,442	0.9%	88.5%	91.6%
U.S. total in U.S. dollars	\$42,957	\$50,364	(14.7%)	\$190,861	\$194,788	(2.0%)	92.7%	94.7%

(1) Same-Asset property operating income (cash basis) is a non-GAAP measure defined in the "Non-GAAP Financial Measures" section of this MD&A.

(2) Includes the REIT's head office.

(3) Property operating income relating to corporate entities has been included in Ontario for Canadian properties and the United States for U.S. properties.

The average exchange rate for the three months ended December 31, 2020 was \$1.31 for each U.S. \$1.00 (Q4 2019 - \$1.33). The average exchange rate for the year ended December 31, 2020 was \$1.34 for each U.S. \$1.00 (December 31, 2019 - \$1.33). Same-Asset property operating income (cash basis) across all operating segments was negatively impacted by the weakening of the U.S. dollar for the three months ended December 31, 2020 and was positively impacted by the strengthening of the U.S. dollar for the year ended December 31, 2020 compared to the respective 2019 periods. The following explanations for changes in Same-Asset property operating income (cash basis) are in addition to the impact of foreign exchange.

Same-Asset property operating income (cash basis) from office properties decreased by 3.4% and 1.6%, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods primarily due to the Hess Lease Amendment which included an initial seven month rent free period. Included in the year ended December 31, 2020 were lease termination fees of nil compared to \$5.8 million for the year ended December 31, 2019. Excluding lease termination fees and the impact of the Hess Lease Amendment, Same-Asset property operating income (cash basis) increased by 1.0% in both periods.

Same-Asset property operating income (cash basis) from retail properties decreased by 1.7% and 13.2%, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods, primarily due to bad debt expense as a result of the impact of COVID-19. This was partially offset by a decrease in operating expenses as a result of the impact of properties being closed or partially closed due to COVID-19. Refer to page 8 of this MD&A for a further breakdown of the REIT's bad debt expense.

Same-Asset property operating income (cash basis) from industrial properties increased by 5.7% and 5.8%, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods, primarily due to an increase in occupancy and increased rental rates on lease renewals.

Same-Asset property operating income (cash basis) from residential properties in U.S. dollars decreased by 20.5% for the three months ended December 31, 2020 compared to the respective 2019 period, primarily due to Jackson Park in New York which has been negatively impacted by lower than average lease renewals and prospective tenant inquiries as a result of COVID-19. H&R believes this decline is temporary and expects operating fundamentals to improve in the second half of 2021. Excluding Jackson Park, Same-Asset property operating income (cash basis) from residential properties in U.S. dollars increased by 2.5% and 6.9%, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods, primarily due to an increase in revenue from rental rate growth and the stabilization of various assets in the portfolio, partially offset by an increase in bad debt expense as a result of the impact of COVID-19.

NET INCOME (LOSS), FFO AND AFFO FROM EQUITY ACCOUNTED INVESTMENTS⁽¹⁾

The following table provides a breakdown of H&R's net income (loss) from equity accounted investments which is further reconciled to FFO and AFFO from equity accounted investments:

(in thousands of Canadian dollars)	Three Months Ended December 31		Year ended December 31	
	2020	2019	2020	2019
Rentals from investment properties	\$25,800	\$31,912	\$119,802	\$124,033
Property operating costs	(7,424)	(6,813)	(35,104)	(30,177)
Property operating income	18,376	25,099	84,698	93,856
Net income from equity accounted investments	135	147	479	649
Finance cost - operations	(9,585)	(10,816)	(39,447)	(39,510)
Finance income	54	129	302	1,250
Trust expenses	(659)	(467)	(3,762)	(3,417)
Fair value adjustment on financial instruments	371	656	(1,458)	(6,845)
Fair value adjustment on real estate assets	(53,209)	22,444	(55,305)	(10,941)
Gain (loss) on sale of real estate assets	(4)	11	(1,815)	(2,612)
Income tax (expense) recovery	(8)	(6)	118	(56)
Non-controlling interest	(168)	(239)	(796)	(1,173)
Net income (loss) from equity accounted investments	(44,697)	36,958	(16,986)	31,201
Realty taxes in accordance with IFRIC 21	(1,160)	(1,263)	-	-
Fair value adjustments on financial instruments and real estate assets	52,838	(23,100)	56,763	17,786
(Gain) loss on sale of real estate assets	4	(11)	1,815	2,612
Deferred income tax expense (recovery)	-	-	10	(164)
Operational revenue and expenses from right-of-use assets	-	-	-	(415)
Incremental leasing costs	151	23	604	98
Notional interest capitalization ⁽²⁾	722	636	2,930	2,490
FFO from equity accounted investments	7,858	13,243	45,136	53,608
Straight-lining of contractual rent	(243)	261	111	(1,687)
Rent amortization of tenant inducements	274	298	1,125	1,191
Capital expenditures	(279)	(1,441)	(1,894)	(4,632)
Leasing expenses and tenant inducements	(243)	(888)	(779)	(1,484)
Incremental leasing costs	(151)	(23)	(604)	(98)
AFFO from equity accounted investments	\$7,216	\$11,450	\$43,095	\$46,898

⁽¹⁾ Each of these line items represent the REIT's proportionate share of equity accounted investments which are reconciled to net income (loss) from equity accounted investments per the REIT's Financial Statements, which is further reconciled to FFO and AFFO from equity accounted investments. These are non-GAAP measures defined in the "Non-GAAP Financial Measures" section of this MD&A.

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

Property operating income from equity accounted investments for the three months and year ended December 31, 2020 compared to the respective 2019 periods decreased by \$6.7 million and \$9.2 million, respectively, primarily due to Jackson Park in New York, which has been negatively impacted by lower than average lease renewals and prospective tenant inquiries as a result of COVID-19. H&R believes Jackson Park's decline is temporary and expects operating fundamentals to improve in the second half of 2021. In addition, property operating income decreased for both periods noted above due to higher bad debt expense as a result of the impact of COVID-19 on ECHO and properties sold.

Net income (loss) from equity accounted investments for the three months and year ended December 31, 2020 compared to the respective 2019 periods decreased by \$81.7 million and \$48.2 million, respectively, primarily due to a fair value decrease to Jackson Park in Q4 2020 and a decrease in property operating income further discussed above.

FFO from equity accounted investments for the three months and year ended December 31, 2020 compared to the respective 2019 periods decreased by \$5.4 million and \$8.5 million, respectively, primarily due to the decrease in property operating income noted above.

INCOME AND EXPENSE ITEMS

The income and expense items section of this MD&A provides management's commentary on the Results of Operations per the REIT's Financial Statements.

Finance Costs (in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Finance costs – operations:						
Contractual interest on mortgages payable	(\$37,014)	(\$39,001)	\$1,987	(\$150,354)	(\$164,867)	\$14,513
Contractual interest on debentures payable	(12,180)	(11,034)	(1,146)	(41,379)	(47,312)	5,933
Contractual interest on unsecured term loans	(5,688)	(5,861)	173	(22,851)	(21,842)	(1,009)
Bank interest and charges on lines of credit	(2,918)	(4,016)	1,098	(16,303)	(13,951)	(2,352)
Effective interest rate accretion	(1,365)	(1,129)	(236)	(4,625)	(4,301)	(324)
Exchangeable unit distributions	(2,567)	(5,358)	2,791	(13,966)	(21,872)	7,906
	(61,732)	(66,399)	4,667	(249,478)	(274,145)	24,667
Capitalized interest	4,857	5,292	(435)	20,609	17,649	2,960
	(56,875)	(61,107)	4,232	(228,869)	(256,496)	27,627
Finance income	7,131	6,012	1,119	33,399	15,036	18,363
Fair value adjustment on financial instruments	(44,084)	42,607	(86,691)	82,974	(19,483)	102,457
	(\$93,828)	(\$12,488)	(\$81,340)	(\$112,496)	(\$260,943)	\$148,447

The decrease in contractual interest on mortgages payable of \$2.0 million and \$14.5 million, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods is primarily due to mortgages repaid upon maturity totalling \$614.4 million partially offset by the issuance of new mortgages totalling \$439.4 million since January 1, 2019.

The increase in contractual interest on debentures payable of \$1.1 million for the three months ended December 31, 2020 compared to the respective 2019 period is primarily due to the issuance of the \$400.0 million Series Q Senior Debentures issued in June 2020 and \$250.0 million Series R Senior Debentures issued in December 2020, partially offset by the repayment of the U.S. \$125.0 million Series P Senior Debentures and the \$175.0 million Series F Senior Debentures, both in Q1 2020. The decrease in contractual interest on debentures payable of \$5.9 million for the year ended December 31, 2020 compared to the respective 2019 period is primarily due to the repayment of an aggregate of \$687.5 million of senior debentures since March 2019 partially offset by the \$400.0 million of Series Q Senior Debentures issued in June 2020 and \$250.0 million Series R Senior Debentures issued in December 2020.

The increase in contractual interest on unsecured term loans of \$1.0 million for the year ended December 31, 2020 compared to the respective 2019 period is primarily due to H&R obtaining a \$250.0 million unsecured term loan on March 7, 2019.

The decrease in bank interest and charges on lines of credit of \$1.0 million for the three months ended December 31, 2020 compared to the respective 2019 period is primarily due to lower variable interest rates on borrowings and H&R repaying lines of credit with the proceeds from the \$250.0 million Series R Senior Debentures issued in December 2020. The increase in bank interest and charges on lines of credit of \$2.4 million for the year ended December 31, 2020 compared to the respective 2019 period is primarily due to borrowings on the lines of credit increasing throughout 2020 compared to 2019.

The decrease in exchangeable unit distributions of \$2.8 million and \$7.9 million, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods is primarily due to H&R decreasing its monthly distributions from \$0.115 per Unit to \$0.0575 per Unit effective May 2020.

The increase in capitalized interest of \$3.0 million for the year ended December 31, 2020 compared to the respective 2019 period is primarily due to the increase in funding for the River Landing development and industrial lands in Caledon, ON. This was partially offset by a decrease in capitalized interest from the re-development of the former Target and Sears space.

The increase in finance income of \$1.1 million and \$18.4 million, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods is primarily due to the REIT issuing several mortgage receivables including H&R providing a loan of U.S. \$124.1 million in December 2019 secured against 12.4 acres of land in Jersey City, NJ, bearing interest at 10.0% per annum.

The fair value adjustment on financial instruments of (\$44.1 million) and \$83.0 million, respectively, for the three months and year ended December 31, 2020 is primarily due to the gain (loss) on fair value of exchangeable units of (\$53.9 million) and \$121.1 million, respectively, which are fair valued at the end of each reporting period based on the quoted price of Units on the TSX. The loss on fair value of exchangeable units of (\$53.9 million) for the three months ended December 31, 2020 is due to H&R's Unit price increasing from \$9.67 as at September 30, 2020 to \$13.29 as at December 31, 2020. The gain on fair value of exchangeable units of \$121.1 million for the year ended December 31, 2020 is due to H&R's Unit price decreasing from \$21.10 as at December 31, 2019 to \$13.29 as at December 31, 2020.

Trust (Expenses) Recoveries

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Other expenses	(\$5,873)	(\$3,654)	(\$2,219)	(\$24,638)	(\$17,149)	(\$7,489)
Unit-based compensation recovery (expense)	(4,067)	12,026	(16,093)	10,341	(10,144)	20,485
Trust (expenses) recoveries	(\$9,940)	\$8,372	(\$18,312)	(\$14,297)	(\$27,293)	\$12,996

Other expenses increased by \$2.2 million and \$7.5 million, respectively, for the three months and the year ended December 31, 2020 compared to the respective 2019 periods, primarily due to the continued expansion of Lantower Residential and lower third-party fees earned. Other expenses further increased for the year-ended December 31, 2020 compared to the respective 2019 period, primarily due to costs incurred for abandoned transactions and an allowance for credit loss on mortgages receivable as a result of COVID-19 totalling \$5.6 million.

Unit-based compensation consists of the following two compensation plans: the Unit Option Plan and the Incentive Unit Plan. Both plans are considered to be cash-settled under IFRS 2, *Share-based Payments* ("IFRS 2") and as a result, are measured at each reporting period and settlement date at their fair value as defined by IFRS 2 based on the quoted price of Units on the TSX. The fair value adjustment to unit-based compensation was (\$2.6 million) and \$13.5 million, respectively, for the three months ended December 31, 2020 and 2019, as well as \$16.0 million and (\$4.5 million), respectively, for the year ended December 31, 2020 and 2019. The fair value adjustment to unit-based compensation of \$16.0 million for the year ended December 31, 2020 was due to H&R's Unit price decreasing from \$21.10 as at December 31, 2019 to \$13.29 as at December 31, 2020.

Fair Value Adjustment on Real Estate Assets

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Fair value adjustment on real estate assets	\$69,960	(\$43,689)	\$113,649	(\$1,195,958)	(\$103,903)	(\$1,092,055)

H&R records its real estate assets at fair value. Fair value adjustments on real estate assets are determined based on the movement of various parameters, including changes in capitalization rates, discount rates, terminal capitalization rates and future cash flow projections. The impact of COVID-19 has caused a change in assumptions used in determining the fair value of investment properties for the year ended December 31, 2020. Refer to page 7 of this MD&A for further discussion on IFRS fair value adjustments included in the Business Update.

Gain (Loss) on Sale of Real Estate Assets

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Gain (loss) on sale of real estate assets	(\$62)	(\$11)	(\$51)	(\$2,229)	\$25,632	(\$27,861)

For a list of property dispositions, refer to page 16 of this MD&A.

The loss on sale of real estate assets for the year ended December 31, 2020 of \$2.2 million is primarily due to the sale of two U.S. residential properties. The gain on sale of real estate assets for the year ended December 31, 2019 of \$25.6 million is primarily due to the sale of The Atrium in Toronto, ON.

Income Tax (Expense) Recovery

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Income tax computed at the Canadian statutory rate of nil applicable to H&R for 2020 and 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current U.S. income taxes	(17)	36	(53)	(259)	(113)	(146)
Deferred income taxes (expense) recoveries applicable to U.S. Holdco	6,612	(10,551)	17,163	54,000	(35,267)	89,267
Income tax (expense) recovery in the determination of net income (loss)	\$6,595	(\$10,515)	\$17,110	\$53,741	(\$35,380)	\$89,121

H&R is generally subject to tax in Canada under the *Income Tax Act* (Canada) ("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 H&R for tax purposes. H&R's current income tax expense is primarily due to U.S. state taxes and a refund of previously paid alternative minimum tax.

H&R's deferred income tax is recorded in respect of H&R REIT (U.S.) Holdings Inc. ("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 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 and losses can be realized. Deferred income taxes decreased by \$17.2 million and \$89.3 million, respectively, for the three months and year ended December 31, 2020 compared to the respective 2019 periods, primarily due to fair value adjustments on real estate assets. Deferred income taxes further decreased for the year ended December 31, 2020 compared to the respective 2019 period due to certain income tax regulations released by the IRS in July 2020 resulting in the REIT recognizing a deferred tax recovery of \$46.5 million during the year ended December 31, 2020.

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 are also recognized in equity. As at December 31, 2020, H&R had net deferred tax liabilities of \$348.8 million (December 31, 2019 - \$409.4 million), primarily related to taxable temporary differences between the tax and accounting bases of U.S. real estate assets.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

The REIT presents its FFO and AFFO calculations in accordance with REALpac's February 2019 *White Paper on Funds From Operations and Adjusted Funds From Operations for IFRS*. FFO, AFFO and payout ratio as a % of FFO and AFFO are non-GAAP measures defined in the "Non-GAAP Financial Measures" section of this MD&A.

FFO AND AFFO (in thousands of Canadian dollars except per Unit amounts)	Three Months Ended December 31		Year ended December 31	
	2020	2019	2020	2019
Net income (loss) per the REIT's Financial Statements	\$111,644	\$163,402	(\$624,559)	\$340,289
Realty taxes in accordance with IFRIC 21	(11,069)	(11,173)	-	-
FFO adjustments from equity accounted investments (page 32)	52,555	(23,715)	62,122	22,407
Exchangeable unit distributions	2,567	5,358	13,966	21,872
Fair value adjustments on financial instruments and real estate assets	(25,876)	1,082	1,112,984	123,386
Fair value adjustment to unit-based compensation	2,561	(13,525)	(15,992)	4,512
(Gain) loss on sale of real estate assets	62	11	2,229	(25,632)
Deferred income taxes applicable to U.S. Holdco	(6,612)	10,551	(54,000)	35,267
Incremental leasing costs	1,566	1,696	6,346	7,017
FFO	\$127,398	\$133,687	\$503,096	\$529,118
Straight-lining of contractual rent	(4,297)	(2,211)	(10,652)	(7,161)
Rent amortization of tenant inducements	1,175	602	2,661	2,354
Capital expenditures	(14,479)	(21,247)	(52,980)	(64,234)
Leasing expenses and tenant inducements	(40,309)	(17,948)	(49,927)	(44,756)
Incremental leasing costs	(1,566)	(1,696)	(6,346)	(7,017)
AFFO adjustments from equity accounted investments (page 32)	(642)	(1,793)	(2,041)	(6,710)
AFFO	\$67,280	\$89,394	\$383,811	\$401,594
Weighted average number of Units (in thousands of basic Units adjusted for conversion of exchangeable Units) ⁽¹⁾	301,746	301,573	301,687	301,487
Diluted weighted average number of Units (in thousands of Units) for the calculation of FFO and AFFO ⁽¹⁾⁽²⁾	302,292	302,855	302,234	302,978
FFO per basic Unit (adjusted for conversion of exchangeable units)	\$0.422	\$0.443	\$1.668	\$1.755
FFO per diluted Unit	\$0.421	\$0.441	\$1.665	\$1.746
AFFO per basic Unit (adjusted for conversion of exchangeable units)	\$0.223	\$0.296	\$1.272	\$1.332
AFFO per diluted Unit	\$0.223	\$0.295	\$1.270	\$1.325
Distributions per Unit	\$0.172	\$0.345	\$0.920	\$1.380
Payout ratio per as a % of FFO	40.8%	77.9%	55.2%	78.6%
Payout ratio as a % of AFFO	77.1%	116.6%	72.3%	103.6%

(1) For both the three months and year ended December 31, 2020, included in the weighted average and diluted weighted average number of Units are exchangeable units of 14,883,065. For both the three months and year ended December 31, 2019, included in the weighted average and diluted weighted average number of Units are exchangeable units of 15,154,073 and 15,429,537, respectively.

(2) For the three months and year ended December 31, 2020, included in the determination of diluted FFO and AFFO with respect to H&R's Unit Option Plan and Incentive Unit Plan are 546,306 Units. For the three months and year ended December 31, 2019, included in the determination of diluted FFO and AFFO with respect to H&R's Unit Option Plan and Incentive Unit Plan are 1,281,677 Units and 1,491,567 Units, respectively.

FFO for the three months and year ended December 31, 2020 compared to the respective 2019 periods decreased by \$6.3 million and \$26.0 million, respectively, primarily due to a decrease in property operating income as a result of: (i) higher bad debt expense as a result of COVID-19; (ii) Jackson Park in New York being negatively impacted due to lower than average lease renewals and prospective tenant inquiries as a result of COVID-19; and (iii) costs incurred for abandoned transactions and an allowance for credit loss on mortgages receivable both as a result of COVID-19. This was partially offset by higher finance income and lower finance costs – operations.

AFFO for the three months ended December 31, 2020 compared to the respective 2019 period decreased by \$22.1 million, primarily due to higher tenant expenditures and the decrease in FFO noted above. AFFO for the year ended December 31, 2020 compared to the respective 2019 period decreased by \$17.8 million, primarily due to the decrease in FFO noted above, partially offset by lower capital and tenant expenditures. Leasing expenses and tenant

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inducements for the three months and year ended December 31, 2020 was higher than usual due to \$36.1 million tenant inducement granted as part of the Hess Lease Amendment.

Included in FFO at the REIT's proportionate share are the following items which can be a source of variances between periods:

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Lease termination fees	\$338	\$ -	\$338	\$4,672	\$7,624	(\$2,952)
Adjustments to straight-lining of contractual rent	-	-	-	-	(1,485)	1,485
Bad debt expense	(3,910)	(959)	(2,951)	(42,172)	(2,216)	(39,956)
Costs incurred for abandoned transactions and an allowance for credit loss on mortgages receivable as a result of COVID-19	(165)	(21)	(144)	(5,785)	(21)	(5,764)
Mortgage prepayment penalties	(86)	-	(86)	(86)	(449)	363
	(\$3,823)	(\$980)	(\$2,843)	(\$43,371)	\$3,453	(\$46,824)

Excluding the above items, FFO would have been \$131.2 million for the three months ended December 31, 2020 (Q4 2019 - \$134.7 million) and \$0.43 per basic Unit (Q4 2019 - \$0.45 per basic Unit). For the year ended December 31, 2020, FFO would have been \$546.5 million (December 31, 2019 - \$525.7 million) and \$1.81 per basic Unit (December 31, 2019 - \$1.74 per basic Unit).

Capital and Tenant Expenditures

The following is a breakdown of H&R's capital expenditures and tenant expenditures (leasing expenditures and tenant inducements) by operating segment:

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Office:						
Capital expenditures	\$9,238	\$8,523	\$715	\$27,971	\$21,856	\$6,115
Leasing expenditures and tenant inducements	39,314	5,150	34,164	45,313	22,360	22,953
Retail:						
Capital expenditures	3,593	9,562	(5,969)	13,580	32,171	(18,591)
Leasing expenditures and tenant inducements	1,864	10,590	(8,726)	4,678	18,561	(13,883)
Industrial:						
Capital expenditures	400	1,666	(1,266)	2,434	3,434	(1,000)
Leasing expenditures and tenant inducements	(626)	3,096	(3,722)	715	5,319	(4,604)
Residential:						
Capital expenditures	1,527	2,937	(1,410)	10,889	11,405	(516)
Leasing expenditures and tenant inducements	-	-	-	-	-	-
Total at the REIT's proportionate share	55,310	41,524	13,786	105,580	115,106	(9,526)
Less: equity accounted investments	(522)	(2,329)	1,807	(2,673)	(6,116)	3,443
Total per the REIT's Financial Statements ⁽¹⁾	\$54,788	\$39,195	\$15,593	\$102,907	\$108,990	(\$6,083)

⁽¹⁾ Equal to the sum of capital expenditures and leasing expenses and tenant inducements per the REIT's Financial Statements.

The largest capital expenditure from the Office segment for the three months and year ended December 31, 2020 was a generator upgrade at a Toronto, ON office property totalling \$8.9 million (including \$1.7 million spent in Q4 2020). The generator upgrade resulted in an 86% reduction in harmful emissions and also now meets the current "Tier 4" emissions standards for diesel generators as set by the United States Environmental Protection Agency. Included in capital expenditures from the Office segment for the year ended December 31, 2020 are two other large projects: (i) a full roof replacement at a Calgary, AB office property totalling \$1.8 million and (ii) a chiller replacement at a Calgary, AB office property totalling \$1.5 million (including \$1.1 million spent in Q4 2020).

Tenant expenditures from the Office segment for both the three months and year ended December 31, 2020 included \$36.1 million in a tenant inducement and leasing expenditure relating to the Hess Lease Amendment. Tenant expenditures from the Office segment for the year ended December 31, 2019 included \$7.7 million in tenant allowances paid as part of a lease renewal at two single tenant Calgary, AB office properties.

The largest capital expenditures from the Retail segment for the year ended December 31, 2020 included: (i) a food court renovation at a Guelph, ON retail property totaling \$7.0 million (including \$2.1 million spent in Q4 2020); and (ii) a partial roof membrane replacement at a Toronto, ON retail property totaling \$2.1 million. The largest capital expenditures from the Retail segment for the year ended December 31, 2019 included: (i) backfilling a former Future Shop location with a new Best Buy store at a Calgary, AB retail property totalling \$10.2 million; (ii) a food court relocation at a retail property in Orleans, ON totalling \$5.1 million; and (iii) backfilling a former Safeway location with a new Marshalls store at a Winnipeg, MB retail property totalling \$4.8 million.

Tenant expenditures from the Retail segment for the three months and year ended December 31, 2019 included a \$3.5 million tenant allowance paid as part of a lease renewal to an anchor tenant at an Alberta enclosed shopping centre as well as a \$1.8 million tenant allowance paid as part of a lease renewal to a single tenant at a Manitoba retail property.

The largest capital expenditure from the Industrial segment for the year ended December 31, 2020 included a roof replacement at a single tenanted industrial property in Oakville, ON totalling \$1.3 million.

The largest capital expenditures from the Residential segment for the year ended December 31, 2020 included: (i) smart-technology upgrades at five properties throughout Texas and North Carolina totalling \$1.7 million and (ii) exterior painting at two Florida properties totalling \$1.1 million. Smart-technology upgrades are expected to improve operational efficiency and have a positive environmental impact through utility savings for residents and the REIT.

LIQUIDITY AND CAPITAL RESOURCES

Cash Distributions

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

(in thousands of Canadian dollars)	Three months ended December 31, 2020	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018
Cash provided by operations	\$117,052	\$426,928	\$418,039	\$462,123
Net income (loss)	111,644	(624,559)	340,289	337,918
Total distributions ⁽¹⁾	49,484	263,572	394,181	395,568
Excess cash provided by operations over total distributions	67,568	163,356	23,858	66,555
Excess (shortfall) of net income (loss) over total distributions	62,160	(888,131)	(53,892)	(57,650)

⁽¹⁾ Total distributions include cash distributions to unitholders and Unit distributions issued under the Dividend Reinvestment Plan ("DRIP"). In February 2018, the REIT announced the suspension of the DRIP until further notice, commencing with the March 2018 distribution.

Cash provided by operations exceeded total distributions for all periods noted above. Distributions exceeded net income (loss) for the year ended December 31, 2020 as well as the years ended December 31, 2019 and 2018 primarily due to non-cash items. Non-cash items relating to the fair value adjustments on financial instruments, real estate assets and unit-based compensation, gain (loss) on sale of real estate assets, gain (loss) on foreign exchange and deferred income taxes (recoveries) are deducted from or added to net income (loss) and have no impact on cash available to pay current distributions. The net loss of \$624.6 million for the year ended December 31, 2020 was primarily due to fair value adjustments which are further discussed on page 7 of this MD&A.

Unit distributions issued under the DRIP were nil for the year ended December 31, 2020 (December 31, 2019 – nil, December 31, 2018 - \$16.6 million), which are non-cash distributions. Unit distributions issued under the DRIP previously resulted in an increase in the number of Units outstanding, however, the suspension of the DRIP commencing with the March 2018 distribution, resulted in an increased proportion of cash distributions.

Major Cash Flow Components

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2020	2019	Change	2020	2019	Change
Cash and cash equivalents, beginning of period	\$54,436	\$73,481	(\$19,045)	\$48,640	\$53,073	(\$4,433)
Cash flows from operations	117,052	107,263	9,789	426,928	418,039	8,889
Cash flows used for investing	(240,906)	(311,128)	70,222	(183,244)	(5,407)	(177,837)
Cash flows from (used for) financing	132,277	179,024	(46,747)	(229,465)	(417,065)	187,600
Cash and cash equivalents, end of period	\$62,859	\$48,640	\$14,219	\$62,859	\$48,640	\$14,219

Cash flows from operations increased by \$9.8 million for the three months ended December 31, 2020 compared to the respective 2019 period, primarily due to an increase in non-cash working capital. Cash flows from operations increased by \$8.9 million for the year ended December 31, 2020 compared to the respective 2019 period, primarily due to an increase in non-cash working capital, lower finance costs and higher finance income. This was partially offset by the bad debt expense and costs incurred for abandoned transactions both as a result of COVID-19.

Cash flows used for investing increased by \$70.2 million for the three months ended December 31, 2020 compared to the respective 2019 period, primarily due to a greater amount of mortgages receivables issued in Q4 2019 compared to Q4 2020. Cash flows used for investing decreased by \$177.8 million for the year ended December 31, 2020 compared to the respective 2019 period, primarily due to a decrease in net proceeds on the disposition of real estate assets and H&R receiving a cash distribution of U.S \$194.8 million as part of the Jackson Park refinancing (equity accounted investment) in Q3 2019. This was partially offset by net repayments of mortgages receivable in 2020 compared to net issuances in 2019 and less cash spent on acquisitions, properties under development and redevelopment.

Cash flows from (used for) financing decreased by \$46.7 million for the three months ended December 31, 2020 compared to the respective 2019 period, primarily due to an increase in debt drawn in Q4 2019 compared to Q4 2020, offset by lower Unit distributions. Cash flows from (used for) financing increased by \$187.6 million for the year ended December 31, 2020 compared to the respective 2019 period, primarily due to lower Unit distributions.

Capital Resources

As at December 31, 2020, H&R had cash on hand of \$62.9 million and amounts available under its lines of credit totalling \$1.1 billion. Subject to market conditions, management expects to be able to meet all of the REIT's ongoing contractual obligations. In addition, the REIT has \$58.4 million available under its secured construction facilities held through equity accounted investments as at December 31, 2020. As at December 31, 2020, the REIT is not in default or arrears on any of its obligations including interest or principal payments on debt and any debt covenant.

As at December 31, 2020, H&R had 100 unencumbered properties (including properties under development), with a fair value of approximately \$3.7 billion. Also, due to H&R's 24-year history and management's conservative strategy of securing long-term financing on individual properties, H&R has numerous other properties with very low loan to value ratios. As at December 31, 2020, H&R had 40 properties valued at approximately \$1.5 billion which are encumbered with mortgages totalling \$205.5 million. In this pool of assets, the average loan to value is 13.6%, the minimum loan to value is 1.3% and the maximum loan to value is 29.0%. The weighted average remaining term to maturity of this pool of mortgages is 1.1 years. Of these 40 properties, six properties have mortgages maturing in 2021 totalling \$108.7 million with a fair value of \$664.8 million.

The following is a summary of material contractual obligations including payments due as at December 31, 2020 for the next five years and thereafter:

Contractual Obligations ⁽¹⁾ (in thousands of Canadian dollars)	Payments Due by Period				
	2021	2022- 2023	2024- 2025	2026 and thereafter	Total
Mortgages payable	\$939,535	\$1,058,273	\$242,553	\$1,396,602	\$3,636,963
Senior debentures	-	575,000	750,000	250,000	1,575,000
Unsecured term loans	188,029	-	250,000	250,000	688,029
Lines of credit	273,750	214,068	-	-	487,818
Lease liability ⁽²⁾	1,117	2,293	2,385	176,914	182,709
Property acquisition	11,587	-	-	-	11,587
Total contractual obligations	\$1,414,018	\$1,849,634	\$1,244,938	\$2,073,516	\$6,582,106

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

(2) Corresponds to a right-of-use asset in a leasehold interest.

DBRS Morningstar ("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 H&R has a credit rating of BBB (high) with a Stable trend as at December 31, 2020. This is a rating achieved by only four Canadian REITs (including H&R) as at December 31, 2020. 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.

Funding of Future Commitments

As at December 31, 2020, H&R had cash on hand of \$62.9 million, cash available under its lines of credit of \$1.1 billion and an unencumbered property pool of approximately \$3.7 billion.

The following summarizes the estimated loan to value ratios on properties for which mortgages mature over the next five years:

Year	Number of Properties	Mortgage Debt due on Maturity (\$'000's)	Weighted Average Interest Rate on Maturity	Fair Value Investment Properties (\$'000's)	Loan to Value
2021	12	\$836,727	3.9%	\$2,335,598	36%
2022	40	543,465	3.9%	1,465,824	37%
2023	10	392,160	3.9%	594,159	66%
2024	5	42,827	3.2%	221,327	19%
2025	10	104,912	3.9%	229,567	46%
	77	\$1,920,091	3.9%	\$4,846,475	40%

OFF-BALANCE SHEET ITEMS

In the normal course of operations, H&R has issued letters of credit in connection with developments, financings, operations and acquisitions. As at December 31, 2020, H&R has outstanding letters of credit totaling \$31.8 million (December 31, 2019 - \$36.9 million), including \$12.5 million (December 31, 2019 - \$16.6 million) which has been pledged as security for certain mortgages payable. The letters of credit are secured by certain investment properties.

H&R has co-owners and partners in various projects. As a rule, H&R 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 H&R in the event of a default of the co-owners and partners. In such case, H&R would have a claim against the underlying real estate investment. However, in certain circumstances, subject to compliance with H&R'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 H&R has provided guarantees, such guarantees will be provided. As at December 31, 2020, such guarantees amounted to \$290.1 million expiring between 2021 and 2027 (December 31, 2019 - \$199.0 million, expiring between 2021 and 2027), and no amount has been provided for in the REIT's Financial Statements for these items. These amounts arise where H&R has guaranteed a co-owner's share of the mortgage liability. H&R, however, customarily guarantees or indemnifies the obligations of its nominee companies which hold separate title to each of its properties owned.

H&R had previously guaranteed certain debt assumed by purchasers in connection with past dispositions of properties. As at December 31, 2020, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk is nil (December 31, 2019 - \$41.3 million, which expired in 2020). There were no defaults by the primary obligors for debts on which H&R had provided its guarantees, and as a result, no contingent loss on these guarantees had been recognized in the REIT's Financial Statements.

DERIVATIVE INSTRUMENTS

Where appropriate, H&R uses interest rate swaps to lock-in lending rates on certain anticipated mortgages, debentures and bank borrowings. This strategy provides certainty to the rate of interest on borrowings when H&R 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 (loss).

Where appropriate, H&R uses forward exchange contracts to lock-in foreign exchange rates. There were no forward exchange contracts outstanding as at December 31, 2020. This strategy manages risks related to foreign exchange rates on transactions that will occur in the future.

During 2019 and 2020, H&R had the following interest rate swaps outstanding:

(in thousands of Canadian dollars)	Maturity	Fair value asset (liability)*		Net gain (loss) on derivative instruments	
		December 31 2020	December 31 2019	Year ended December 31	
				2020	2019
Debenture interest rate swap	(1) March 1, 2019	\$ -	\$ -	\$ -	(\$592)
Debenture interest rate swap	(2) February 13, 2020	-	(404)	404	(73)
Term loan interest rate swap	(3) March 17, 2021	(469)	752	(1,221)	(4,101)
Term loan interest rate swap	(4) May 7, 2030	(20,797)	(2,777)	(18,020)	(2,777)
Term loan interest rate swap	(5) January 6, 2026	(21,023)	(6,171)	(14,852)	(3,801)
Incentive units swap	(6) 2021	730	-	730	-
Incentive units swap	(6) 2022	701	-	701	-
Incentive units swap	(6) 2023	1,763	-	1,763	-
		(\$39,095)	(\$8,600)	(\$30,495)	(\$11,344)

(1) To fix the interest rate at 2.36% per annum for the Series K senior debentures which settled upon maturity.

(2) To fix the interest rate at 3.67% per annum for the Series P senior debentures which settled upon maturity.

(3) To fix the interest rate at 2.56% per annum for the U.S. \$130.0 million term loan.

(4) In November 2020, the interest rate swap was amended to fix the interest rate at 3.17% per annum for the \$250.0 million term loan and the maturity date was extended to May 7, 2030. Previously, the interest rate was fixed at 3.33% per annum with a maturity date of March 7, 2026.

(5) To fix the interest rate at 3.91% per annum for the \$250.0 million term loan.

(6) To fix the payout on incentive units that mature in the respective years.

* 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.

SECTION IV

SELECTED FINANCIAL INFORMATION

Summary of Annual Information

The following tables summarize certain financial information for the years indicated below:

(in thousands of Canadian dollars except per Unit amounts)	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
Rentals from investment properties	\$1,098,680	\$1,149,450	\$1,176,558
Net income (loss) from equity accounted investments	(16,986)	31,201	169,409
Finance income	33,399	15,036	8,638
Net income (loss)	(624,559)	340,289	337,918
Total comprehensive income (loss)	(711,221)	214,963	532,794
Total assets	13,355,444	14,483,342	14,691,009
Total liabilities	7,284,053	7,439,425	7,490,909
Cash distributions per Unit	\$0.92	\$1.38	\$1.38

Summary of Quarterly Results

The following tables summarize certain financial information for the quarters indicated below:

(in thousands of Canadian dollars)	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Rentals from investment properties	\$277,509	\$271,612	\$269,882	\$279,677
Net income (loss) from equity accounted investments	(44,697)	9,195	7,639	10,877
Net income (loss)	111,644	247,849	35,769	(1,019,821)
Total comprehensive income (loss)	(34,663)	177,239	(70,177)	(783,620)

	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Rentals from investment properties	\$282,221	\$281,571	\$286,972	\$298,686
Net income (loss) from equity accounted investments	36,958	(18,414)	3,556	9,101
Net income (loss)	163,402	69,301	109,583	(1,997)
Total comprehensive income (loss)	119,484	89,458	67,813	(61,792)

Fluctuations between quarterly results are generally due to property acquisitions, dispositions, changes in foreign exchange rates and changes in the fair value of financial instruments and real estate assets.

Rentals from investment properties increased by \$5.9 million in Q4 2020 compared to Q3 2020 primarily due to an increase in operating cost recoveries.

Net income (loss) from equity accounted investments decreased by \$53.9 million in Q4 2020 compared to Q3 2020 primarily due to a fair value decrease to Jackson Park in Q4 2020 as a result of lower than average lease renewals and prospective tenant inquiries as a result of COVID-19.

Net income (loss) decreased by \$136.2 million in Q4 2020 compared to Q3 2020 primarily due to the following: (i) fair value adjustments on real estate assets and financial instruments; (ii) a decrease in net income (loss) from equity accounted investments discussed above; and (iii) a higher deferred income tax recovery in Q3 2020.

Total comprehensive income (loss) decreased by \$211.9 million in Q4 2020 compared to Q3 2020 primarily due to the decrease in net income (loss) noted above and a foreign currency loss from investment in foreign operations of \$146.3 million in Q4 2020 compared to a loss of \$70.6 million in Q3 2020.

PORTFOLIO OVERVIEW

The geographic diversification of the portfolio of properties in which the REIT has an interest and the related square footage is disclosed at the REIT's proportionate share as at December 31, 2020 in the tables below:

Number of Properties ⁽¹⁾	Canada				United States	Total
	Ontario	Alberta	Other	Subtotal		
Office	20	4	4	28	5	33
Retail ⁽²⁾	36	17	14	67	260	327
Industrial	37	19	28	84	3	87
Residential ⁽³⁾	-	-	-	-	23	23
Total	93	40	46	179	291	470

Square Feet (in thousands) ⁽¹⁾	Canada				United States	Total
	Ontario	Alberta	Other	Subtotal		
Office	5,375	2,607	893	8,875	1,865	10,740
Retail ⁽²⁾	3,458	3,954	2,720	10,132	3,572	13,704
Industrial	4,898	2,030	1,648	8,576	700	9,276
Residential ⁽³⁾	-	-	-	-	7,209	7,209
Total	13,731	8,591	5,261	27,583	13,346	40,929

⁽¹⁾ H&R has 15 properties under development which are not included in the tables above.

⁽²⁾ Retail, which includes ECHO's equity accounted investment, has 10 properties under development which are not included in the tables above.

⁽³⁾ The residential properties contain 7,831 residential rental units.

LEASE MATURITY PROFILE

The following tables disclose H&R's leases expiring in Canada and the United States at the REIT's proportionate share, excluding the Residential segment where leases typically expire annually.

Canadian Portfolio:

	Office		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
LEASE EXPIRIES								
2021	164,475	22.75	782,563	24.46	264,818	6.03	1,211,856	20.20
2022	275,977	22.54	903,650	22.68	1,165,704	6.84	2,345,331	14.79
2023	109,714	32.38	538,199	32.91	387,518	6.62	1,035,431	23.01
2024	587,895	11.99	765,394	27.38	751,129	7.70	2,104,418	16.06
2025	422,077	20.56	575,458	31.59	683,639	6.09	1,681,174	18.45
	1,560,138	18.74	3,565,264	27.06	3,252,808	6.79	8,378,210	17.64
Total % of each segment	17.6%		35.2%		37.9%		30.4%	

U.S. Portfolio⁽¹⁾:

	Office		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
LEASE EXPIRIES								
2021	-	-	157,709	17.74	-	-	157,709	17.74
2022	563	57.48	221,513	24.27	-	-	222,076	24.35
2023	85,725	5.86	191,486	25.16	412,585	3.00	689,796	9.51
2024	172,039	24.93	161,534	15.86	123,090	3.75	456,663	16.01
2025	92,694	15.23	199,629	20.13	-	-	292,323	18.58
	351,021	17.76	931,871	21.00	535,675	3.17	1,818,567	15.13
Total % of each segment	18.8%		26.1%		76.5%		29.6%	

⁽¹⁾ U.S. dollars.

TOP TWENTY SOURCES OF REVENUE BY TENANT

The following table discloses H&R's top twenty tenants at the REIT's proportionate share:

Tenant	% of Rentals from Investment Properties ⁽¹⁾	Number of Locations	H&R owned sq.ft. (in 000's)	Average Lease Term to Maturity (in years) ⁽²⁾	Credit Ratings (S&P)
1. Ovintiv Inc. (formerly Encana Corporation) ⁽³⁾	11.9%	1	1,997	17.4	BBB- Negative
2. Bell Canada	8.4%	23	2,536	13.6	BBB+ Stable
3. Hess Corporation	5.7%	1	845	12.2	BBB- Negative
4. New York City Department of Health	4.0%	1	660	9.9	AA Stable
5. Giant Eagle, Inc.	3.5%	201	1,636	10.6	Not Rated
6. Canadian Tire Corporation ⁽⁴⁾	3.0%	19	2,681	6.0	BBB Negative
7. TC Energy Corporation	1.9%	1	466	10.3	BBB+ Stable
8. Corus Entertainment Inc.	1.9%	1	472	12.2	BB Negative
9. Lowe's Companies, Inc. ⁽⁵⁾	1.6%	13	1,346	13.3	BBB+ Stable
10. Telus Communications	1.2%	17	356	5.2	BBB+ Negative
11. Shell Oil Products	1.1%	14	182	2.2	AA- Negative
12. Toronto-Dominion Bank	1.1%	7	286	6.6	AA- Stable
13. Public Works and Government Services, Canada	1.0%	5	321	4.5	AAA Stable
14. Loblaw Companies Limited ⁽⁶⁾	1.0%	19	273	8.4	BBB Stable
15. Royal Bank of Canada	0.9%	5	247	4.4	AA- Stable
16. The TJX Companies Inc. ⁽⁷⁾	0.9%	17	655	5.5	A Negative
17. Empire Company Limited ⁽⁸⁾	0.9%	14	492	10.3	BBB- Stable
18. Walmart Inc. ⁽⁹⁾	0.7%	9	751	6.6	AA Stable
19. Metro Inc.	0.7%	12	420	5.8	BBB Stable
20. Canadian Imperial Bank of Commerce	0.7%	9	191	4.3	A+ Stable
Total	52.1%	389	16,813	11.6	

(1) The percentage of rentals from investment properties is based on estimated annualized gross revenue excluding straight-lining of contractual rent, rent amortization of tenant inducements and capital expenditure recoveries.

(2) Average lease term to maturity is weighted based on net rent.

(3) Ovintiv Inc. has sublet 27 floors to Cenovus Energy at The Bow located in Calgary, AB. Ovintiv Inc.'s lease obligations expire on May 13, 2038.

(4) Canadian Tire Corporation includes Canadian Tire, Mark's, Sport Chek, Atmosphere, Sports Experts and Party City.

(5) Lowe's Companies, Inc. includes Rona.

(6) Loblaw Companies Limited includes Loblaw, No Frills and Shoppers Drug Mart.

(7) The TJX Companies Inc. includes Winners, T.J. Maxx, Marshalls and Home Sense.

(8) Empire Company Limited includes Sobeys, Sobey's Liquor, Safeway and Lawtons Drugs.

(9) Walmart Inc. includes Sam's Club.

SECTION V

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Preparation of the REIT's 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 REIT's Financial Statements and reported amounts of revenue and expenses during the reporting period.

For a description of the accounting policies that management believes are subject to greater estimation and judgement, as well as other accounting policies, refer to notes 1 and 2 of the REIT's 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 included in the fair value of real estate assets.

Use of Judgements

- Valuations of real estate assets

Real estate assets, which consist of investment properties and properties under development, are carried on the consolidated statements of financial position at fair value, as determined by either external independent appraisers or by the REIT's internal valuation team. The valuations are based on a number of methods and significant assumptions, such as capitalization rates, terminal capitalization rates, discount rates and estimates of future cash flows. Valuation of real estate assets is one of the principal estimates and uncertainties in the REIT's Financial Statements and this MD&A. Refer to note 3 of the REIT's Financial Statements for further information on estimates and significant 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

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

- Income taxes

H&R is a mutual fund trust and a real estate investment trust pursuant to the Tax Act. Under current tax legislation, H&R is not liable to pay Canadian income tax provided that its taxable income is fully distributed to unitholders each year. H&R 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"). H&R 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. H&R expects to continue to qualify as a real estate investment trust; however, should it no longer qualify, H&R would be subject to tax on its taxable income distributed to unitholders.

- Impairment of equity accounted investments

H&R determines at each reporting date whether there is any objective evidence that the equity accounted investments are impaired. If there is an indication of impairment in respect of the REIT's investment in associates or joint ventures, the whole carrying value of the investment will be tested for impairment as a single asset under IAS 36, *Impairment of Assets* by comparing the recoverable amount with its carrying value. Any resulting impairment loss will be charged against the carrying value of the investment in associates or joint ventures and recognized in net income.

- 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 H&R. 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 a group of properties, qualifies as a business combination in accordance with IFRS 3 or as an asset acquisition.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

H&R's CEO and Chief Financial Officer ("CFO") have designed, or caused to be designed under their direct supervision, the applicable 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 REIT, 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) information required to be disclosed in the annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. H&R's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the REIT's disclosure controls and procedures as at December 31, 2020, and based upon that evaluation have each concluded that such disclosure controls and procedures were appropriately designed and were operating effectively as at December 31, 2020. The REIT's Financial Statements and this MD&A were reviewed and approved by H&R's Audit Committee and the Board prior to this publication.

H&R's management has reviewed its respective internal control over financial reporting on an annual basis. The REIT's management, under the supervision of the CEO and the CFO, has evaluated the effectiveness of internal control over financial reporting as at December 31, 2020 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, the CEO and the CFO have concluded that internal control over financial reporting was effective as of December 31, 2020. No changes were made to H&R's internal control over financial reporting during the three-month period ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

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

SECTION VI

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 H&R's portfolio. The major risk factors including detailed descriptions are outlined below and in H&R's Annual Information Form.

Risks Associated with COVID-19

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic, which has resulted in the federal and provincial governments, as well as U.S. federal and state governments, enacting emergency measures to combat the spread of the virus, including travel bans, quarantine periods, social distancing and significant monetary and fiscal interventions. Given the success in mitigating the initial spread of COVID-19, the governments in Canada and in many other countries, including the U.S., eased the containment measures in late Q2 2020 and rolled out reopening of non-essential businesses on a staged regional approach for most of Q3 2020. This led to a recovery of economic activities and the employment rate in Canada and in many parts of the world. Following Q3 2020, the rise in the number of COVID-19 cases globally indicated the start of the second wave of the pandemic. In response, regional and provincial governments in Canada and internationally, including the U.S., introduced, or restored, restrictive measures for certain non-essential businesses such as theatres, gyms and sit-down restaurants. In Q4 2020, many governments began to implement more restrictive measures and some governments imposed lockdowns, closing all businesses other those deemed "essential". These emergency measures have resulted in additional risks and uncertainties to the REIT's business, operations and financial performance as discussed throughout the MD&A.

The duration and impact of the COVID-19 pandemic on H&R continues to remain unknown at this time, as is the efficacy of the government's interventions. However, disruptions caused by COVID-19 have negatively impacted the market price for the equity securities of the REIT and may, in the short or long term, materially adversely impact the REIT's tenants and/or the debt and equity markets, both of which could materially adversely affect the REIT's operations and financial performance and ability to pay distributions. The REIT has experienced and continues to expect COVID-19 related delays with its current and future development projects. The REIT expects near-term delay to ongoing projects in terms of construction spending and expected completion dates, as well as delays to the commencement of construction for new development projects.

The extent of the effect of the ongoing COVID-19 pandemic on the REIT's operational and financial performance will depend numerous factors, including the duration, spread and intensity of the pandemic, the actions by governments and others taken to contain the pandemic or mitigate its impact, changes in the preferences of tenants and prospective tenants, and the direct and indirect economic effects of the pandemic and containment measures, all of which are uncertain and difficult to predict considering that the situation continues to evolve rapidly. As a result, it is not currently possible to ascertain the long term impact of COVID-19 on the REIT's business and operations. Certain aspects of the REIT's business and operations that have been or could potentially

continue to be impacted include rental income, occupancy, tenant inducements, future demand for space and market rents, as well as increased costs resulting from the REIT's efforts to mitigate the impact of COVID-19, longer-term stoppage of development projects, temporary or long-term labour shortages or disruptions, temporary or long-term impacts on domestic and global supply chains, increased risks to IT systems and networks, further impairments and/or write-downs of assets, and the deterioration of worldwide credit and financial markets that could limit the REIT's ability to access capital and financing on acceptable terms or at all.

Even after the COVID-19 pandemic has subsided, the REIT may continue to experience material adverse impacts to its business as a result of the global economy, including any related recession, as well as lingering effects on the REIT's employees, suppliers, third-party service providers and/or tenants.

Management continues to actively assess and respond where possible, to the effects of the COVID-19 pandemic on the REIT's employees, tenants, suppliers, and service providers, and evaluating governmental actions being taken to curtail its spread. The REIT is continuing to review its future cash flow projections and the valuation of its properties in light of the COVID-19 pandemic, and intends to follow health and safety guidelines as they continue to evolve.

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, the impact of COVID-19, 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 H&R'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 H&R 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 H&R's investment may be incurred. Furthermore, at any time, a tenant of any of the properties in which H&R 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 H&R.

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. For the year ended December 31, 2020, approximately 25.6% of property operating income at the REIT's proportionate share was generated from Alberta. Accordingly, any continuing decline or prolonged weakness in commodity prices, could adversely affect those tenants of H&R that are involved in the oil and gas industry, thereby increasing the credit risk of such tenants to H&R which in turn may adversely affect H&R's operating results.

With respect to the Retail segment, 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 Retail segment, 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 H&R 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 H&R'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 H&R 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.

H&R 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 H&R have early termination provisions and such termination rights are generally exercisable at a cost to the tenant only. The amount of space in H&R's 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 H&R's portfolio is, however, expected by management to be sufficient to cover any cash flow shortfalls on such a property.

Credit Risk and Tenant Concentration

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

H&R 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 H&R'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 H&R are Ovintiv Inc., Bell Canada and Hess Corporation. All of these companies have a public debt rating that is rated with at least a BBB- Stable rating by a recognized rating agency.

Lease Rollover Risk

Lease rollover risk arises from the possibility that H&R 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 30.2% of H&R's total commercial leasable area will expire in the next 5 years.

Interest and Other Debt-Related Risk

H&R has been able to leverage off the low interest rate environment that the Canadian and U.S. economy has experienced in recent years. A reversal of this trend, however, may lead to the REIT's 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, H&R negotiates fixed rate term debt with staggered maturities on the portfolio. Derivative financial instruments may be utilized by H&R in the management of its interest rate exposure. In addition, H&R's Declaration of Trust restricts total indebtedness permitted on the portfolio.

Construction Risks

It is likely that, subject to compliance with H&R's Declaration of Trust, H&R will be involved in various development projects. H&R'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 H&R 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 including the impact of COVID-19; (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

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

H&R is exposed to foreign exchange fluctuations as a result of U.S. mortgages, U.S. unsecured term loans and U.S. lines of credit each being denominated in U.S. dollars.

Liquidity Risk

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relationship with demand for and the perceived desirability of such investments. Such illiquidity will tend to limit H&R's ability to vary its portfolio promptly in response to changing economic or investment conditions. If for whatever reason, liquidation of assets is required, there is a risk that sale proceeds realized might be less than the previously estimated market value of H&R's investments or that market conditions, including the impact of COVID-19, would prevent prompt disposition of assets.

Cyber Security Risk

Cyber security has become an increasingly problematic issue for issuers and businesses in Canada and around the world, including H&R. Cyber attacks against large organizations are increasing in sophistication and are often focused on financial fraud, compromising sensitive data for inappropriate use or disrupting business operations. A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of H&R's information resources. More specifically, a cyber-incident is an intentional attack or an unintentional event that can include gaining unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information. As H&R's reliance on technology has increased, so have the risks

posed to its systems. H&R's primary risks that could directly result from the occurrence of a cyber-incident include operational interruption, damage to its reputation, damage to H&R's business relationships with its tenants, disclosure of confidential information regarding its tenants, employees and third parties with whom H&R interacts, and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation. H&R has implemented processes, procedures and controls to help mitigate these risks, but these measures, as well as its increased awareness of a risk of a cyber-incident, do not guarantee that its financial results will not be negatively impacted by such an incident.

Financing Credit Risk

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

Environmental and Climate Change Risk

As an owner and manager of real estate assets in Canada and the United States, H&R 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 H&R or on adjacent properties.

In accordance with best management practices, Phase I environmental audits are completed on all properties prior to acquisition. Further investigation is conducted if Phase I tests indicate a potential problem. H&R 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.

Natural disasters and severe weather such as floods, ice storms, blizzards and rising temperatures may result in damage to the Properties. The extent of the REIT's casualty losses and loss in property operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. The REIT is also exposed to risks associated with inclement winter weather, including increased need for maintenance and repair of the REIT's buildings. In addition, climate change, to the extent it causes changes in weather patterns, could have effects on the REIT's business by increasing the cost to recover and repair Properties and by increasing property insurance costs to insure a Property against natural disasters and severe weather events.

H&R has taken proactive steps to mitigate the risk of climate change on the REIT and its properties and to address the REIT's environmental impact. See the "ESG" section of this MD&A for additional details on the REIT's environmental and sustainability practices and initiatives.

Co-Ownership Interest in Properties

In certain situations, H&R may be adversely affected by a default by a co-owner of a property under the terms of a mortgage, lease or other agreement. Although all co-owners' agreements entered into by H&R provide for remedies to H&R in such circumstances, such remedies may not be exercisable in all circumstances, or may be insufficient or delayed, and may not cure a default in the event that such default by a co-owner is deemed to be a default of H&R.

Joint Arrangement Risks

H&R has several investments in joint ventures and investments in associates. H&R 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. H&R 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, Units may trade at a premium or a discount to the underlying value of the assets of H&R. See also the "Forward-Looking Disclaimer" in this MD&A.

One of the factors that may influence the quoted price of the Units is the annual yield on the Units. Accordingly, an increase in market interest rates may lead investors in Units to demand a higher annual yield, which could adversely affect the quoted price of Units. In addition, the quoted price for 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 H&R.

Availability of Cash for Distributions

Although H&R intends to make distributions of its available cash to unitholders in accordance with its distribution policy, these cash distributions may be reduced or suspended, including as a result of the impact of COVID-19 on the REIT's business. The actual amount distributed by H&R will depend on

numerous factors including capital market conditions, the financial performance of the properties, H&R's debt covenants and obligations, its working capital requirements, its future capital requirements, its development commitments and fluctuations in interest rates. Cash available to H&R 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. H&R 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 Units may decline significantly if H&R suspends or reduces distributions. H&R's trustees retain the right to re-evaluate the distribution policy from time to time as they consider appropriate.

Ability to Access Capital Markets

As H&R distributes a substantial portion of its income to unitholders, H&R may need to obtain additional capital through capital markets and H&R's ability to access the capital markets through equity issues and forms of secured or unsecured debt financing may affect the operations of H&R 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 H&R is authorized to issue is unlimited. The trustees have the discretion to issue additional Units in certain circumstances, including under H&R's Unit Option Plan and Incentive Unit Plan. In addition, H&R may issue Units pursuant to the DRIP and Unit Purchase Plan. Any issuance of Units may have a dilutive effect on the investors of Units.

Unitholder Liability

H&R's Declaration of Trust provides that unitholders will have no personal liability for actions of the REIT 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. H&R's Declaration of Trust further provides that this lack of unitholder liability, where possible, must be provided for in certain written instruments signed by the REIT. 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 H&R considers 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 REIT's assets. It is intended that the REIT's 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 entitlement of holders of Units to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by H&R in respect of those Units and all other Units tendered for redemption in the same calendar month does not exceed \$50,000 (subject to certain adjustments and provided that the trustees of H&R may waive this limitation at their sole discretion), (ii) at the time such Units are tendered for redemption, the outstanding Units shall be listed for trading or quoted on a stock exchange or traded or quoted on another market which the trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and (iii) the normal trading of the Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not so listed, on any market on which the Units are quoted for trading) on the redemption date or for more than five trading days during the ten-day trading period commencing immediately prior to such date. In certain circumstances, H&R'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. 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 Series L, N, O, Q and R Senior Debentures will receive payments owing to them under the terms of such debentures will depend on the financial health of H&R and its creditworthiness. In addition, such debentures are unsecured obligations of H&R and are subordinate in right of payment to all H&R's existing and future senior indebtedness as defined in each such respective trust indenture. Therefore, if H&R becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, H&R'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 H&R's subsidiaries except to the extent H&R is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. 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 H&R, holders of indebtedness of H&R (including holders of the convertible debentures), may become subordinate to lenders to the subsidiaries of H&R. The indentures governing such debentures do not prohibit or limit the ability of H&R 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 H&R.

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 H&R’s assets and revenues, management believes that H&R satisfied the tests to qualify for the REIT Exemption for 2020. Management of H&R intends to conduct the affairs of H&R 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 H&R will continue to qualify for any subsequent year.

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 Units. If H&R 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), Units 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 H&R 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 to ensure that H&R 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, H&R 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 H&R, 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.

H&R operates in the United States through U.S. Holdco, which is capitalized with debt and equity provided by H&R. During 2018, H&R made loans to U.S. Holdco (“U.S. Holdco Loans”), including a revolving loan that U.S. Holdco drew upon in 2019 and 2020, to refinance existing loans, including U.S. Holdco Notes, or indirectly fund additional U.S. Holdco acquisitions of income generating real property. Management anticipates that U.S. Holdco will continue to borrow funds from H&R in the future for similar purposes, to fund its operations or to refinance existing loans. U.S. Holdco treats the U.S. Holdco Notes and U.S. Holdco Loans as indebtedness for U.S. federal income tax purposes. If the IRS or a court were to determine that the U.S. Holdco Notes and/or the U.S. Holdco Loans should be treated for U.S. federal income tax purposes as equity rather than debt, the interest on the U.S. Holdco Notes and/or the U.S. Holdco Loans could be treated as a dividend, and interest on the U.S. Holdco Notes and/or the U.S. Holdco Loans 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 and/or the U.S. Holdco Loans 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 Loans or H&R’s ability to make distributions on its Units.

For taxable years beginning before January 1, 2018, Section 163(j) of the Internal Revenue Code (prior to its amendment by the Tax Cuts and Jobs Act of 2017 (“U.S. Tax Reform”), “Prior Section 163(j)”) applied to limit the deduction of interest paid to a related party, including debt financing provided by H&R to U.S. Holdco (e.g., the U.S. Holdco Loans or by acquiring U.S. Holdco Notes). With respect to the U.S. Holdco Notes, H&R took the position that, due to the treatment of Finance Trust as a grantor trust that was disregarded for U.S. federal tax purposes, the interest paid to H&R Finance Trust (“Finance Trust”) was treated as having been paid to the holders of the Finance Trust units and was therefore not subject to Prior Section 163(j). If Prior Section 163(j) applied to interest paid to H&R and/or 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 for years subject to Prior Section 163(j).

Under U.S. Tax Reform, Prior Section 163(j) has been repealed and replaced with a new section 163(j) that is applicable to taxable years beginning after December 31, 2017. New section 163(j) applies to both related and third-party debt and there is no debt to equity ratio safe harbor. New section 163(j) limits all interest deductions (related and third party) to 30% (50% for the 2019 and 2020 taxable years) of “adjusted taxable income” (defined similarly to earnings before interest, taxes, depreciation and amortization for taxable years beginning before January 1, 2022, and earnings before interest and taxes thereafter). However, there is an exception to the limitation of new section 163(j) for certain “real property trades or businesses” that make an irrevocable election. If

such an election is made, the real property trade or business is required to use the alternative depreciation system (ADS) to depreciate certain assets for U.S. federal income tax purposes. Management believes U.S. Holdco was eligible to make this election and did so for 2018 onwards.

As the new U.S. Tax Reform continues to move through the implementation process, there is risk that regulatory, administrative or legislative actions could have a materially adverse effect on H&R's deferred income tax assets or liabilities. Management continues to monitor ongoing developments and IRS guidance.

Additional Tax Risks Applicable to Unitholders

H&R is classified as a foreign corporation for United States federal income tax purposes. A foreign corporation will be classified as a passive foreign investment company, or "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. If H&R 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 Units, any distributions in respect of Units which are treated as "excess distribution" under the applicable rules and any gain on a sale or other disposition of Units would be treated as ordinary income and would be subject to special tax rules, including an interest charge. In addition, if H&R were treated as a PFIC, then dividends paid on Units will not qualify for the reduced 20% U.S. federal income tax rate applicable to certain qualifying dividends received by non-corporate 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 H&R 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). Units are treated as a specified foreign financial asset for this purpose.

A holder of 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 H&R (including taxable capital gains deemed to be "TCP gains distributions" for purposes of the Tax Act) paid or credited (whether in cash or *in specie*) in respect of such Units, subject to reduction under the *Canada-U.S. Tax Convention* (the "U.S. Treaty") if applicable. The withholding rate applicable to a U.S. unitholder entitled to the benefits of the U.S. Treaty in respect of such income generally would be reduced to 15% in the case of income arising in Canada and to 0% in the case of income arising outside of Canada. U.S. unitholders may be entitled to a refund of a portion of such withholding tax if the rate applied by H&R 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 the REIT are represented by two classes of Units: Units which are unlimited in number; and special voting units of which a maximum of 9,500,000 may be issued. Each Unit carries a single vote at any meeting of unitholders of the REIT. Each special voting unit carries a single vote at any meeting of unitholders of the REIT. As at February 4, 2021, there were 286,863,083 Units issued and outstanding and 9,500,000 special voting units outstanding.

As at December 31, 2020, the maximum number of options to purchase Units authorized to be issued under H&R's Unit Option Plan was 17,723,110. Of this amount, 10,543,362 options to purchase Units have been granted and are outstanding and 7,179,748 options have not yet been granted. As at February 4, 2021, there were 10,400,029 options to purchase Units outstanding and fully vested.

As at December 31, 2020, the maximum number of incentive units authorized to be granted under H&R's Incentive Unit Plan was 5,000,000. The REIT has granted 1,093,375 incentive units which remain outstanding, 184,299 have been settled for Units and 3,722,326 incentive units remain available for granting. As at February 4, 2021, there were 1,098,148 incentive units outstanding.

As at December 31, 2020 there were 14,883,065 exchangeable units outstanding of which 9,500,000 exchangeable units are accompanied by special voting units. As at February 4, 2021, there were 14,883,065 exchangeable units outstanding of which 9,500,000 exchangeable units are accompanied by special voting units.

ADDITIONAL INFORMATION

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

SUBSEQUENT EVENTS

- (a) In January 2021, the REIT sold one U.S. office property which was classified as held for sale as at December 31, 2020, for gross proceeds of U.S. \$165.0 million and repaid the mortgage payable of approximately U.S. \$13.0 million bearing interest at 5.7% per annum.
- (b) In January 2021, the REIT acquired 12.4 acres of vacant land in Jersey City, NJ for a purchase price of U.S. \$162.0 million. The REIT's outstanding mortgage receivable of approximately U.S. \$146.2 million, secured by this land and bearing interest at 10% per annum, was applied toward the purchase price.

Consolidated Financial Statements of

H&R REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2020 and 2019



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INDEPENDENT AUDITORS' REPORT

To the Unitholders of H&R Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of H&R Real Estate Investment Trust ("the Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2020 and December 31, 2019;
- the consolidated statement of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in unitholders' equity for the years then ended;
- the consolidated statement of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020.



These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of the fair value of investment properties

Description of the matter

We draw attention to Note 1 (d)(ii), Note 2 (b) and Note 4 of the financial statements. The Entity has recorded investment properties at fair value for an amount of \$11,149,130 thousand. The Entity also has equity accounted investments of \$955,468 thousand representing the Entity's share of net assets of associates and joint ventures. These associates and joint ventures have recorded investment properties at fair value for an amount of \$4,556,125 thousand. The investment properties are measured at fair value using valuations prepared by either the Entity's internal valuation team or external independent appraisers. The valuations are based on a number of methods and significant assumptions, such as capitalization rates, terminal capitalization rates and discount rates and estimates of future cash flows.

Why the matter is a key audit matter

We identified the evaluation of the fair value of investment properties as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of investment properties and the high degree of estimation uncertainty in determining the fair value of investment properties. In addition, significant auditor judgment and specialized skills and knowledge were required in performing, and evaluating the results of, our audit procedures due to the sensitivity of the fair value of investment properties to minor changes in certain significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

For a selection of investment properties, we assessed the Entity's ability to accurately forecast by comparing the Entity's future cash flows to be generated by the investment properties used in the prior year's estimate of the fair value of investment properties to actual results.

For a selection of investment properties, we compared the future cash flows used by Entity's internal valuation team and external independent appraisers to the actual historical cash flows. We took into account the changes in conditions and events affecting the investment properties to assess the adjustments, or lack of adjustments, made by the Entity's internal valuation team and external independent appraisers in arriving at those future cash flows.

We involved valuations professionals with specialized skills and knowledge, who assisted in evaluating, for the overall portfolio, the appropriateness of the capitalization rates, terminal capitalization rates and discount rates used by Entity's internal valuation team and external independent appraisers. These rates were evaluated by comparing them to published reports of real estate industry commentators and where available, recent sales of similar properties while considering the features of the specific investment properties.



We evaluated the competence, capabilities and objectivity of the external independent appraisers by:

- Inspecting evidence that the appraisers are in good standing with the Appraisal Institute
- Considering whether the appraisers have appropriate knowledge in relation to the specific type of investment properties
- Reading the reports of the external independent appraisers which refers to their independence

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions; and
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "2020 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the information other than the financial statements and the auditors' report thereon, included in a document entitled "2020 Annual Report" as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors; report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Larry Toste.

Toronto, Canada
February 11, 2021

H&R REAL ESTATE INVESTMENT TRUST

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

	<i>Note</i>	December 31 2020	December 31 2019
Assets			
Real estate assets:			
Investment properties	3	\$ 11,149,130	\$ 11,988,347
Properties under development	3	449,849	683,145
		11,598,979	12,671,492
Equity accounted investments	4	955,468	1,002,773
Assets classified as held for sale	5	219,050	135,673
Other assets	6	519,088	624,764
Cash and cash equivalents	7	62,859	48,640
		\$ 13,355,444	\$ 14,483,342
Liabilities and Unitholders' Equity			
Liabilities:			
Debt	8	\$ 6,368,316	\$ 6,375,860
Exchangeable units	9	197,796	323,173
Deferred tax liability	21	348,755	409,381
Accounts payable and accrued liabilities	10	369,186	281,595
Liabilities classified as held for sale	5	-	49,416
		7,284,053	7,439,425
Unitholders' equity		6,071,391	7,043,917
Commitments and contingencies	22		
Subsequent events	24		
		\$ 13,355,444	\$ 14,483,342

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Trustees:

“Ronald Rutman” Trustee

“Thomas J. Hofstedter” Trustee

H&R REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Comprehensive Income (Loss)

(In thousands of Canadian dollars)

Years ended December 31, 2020 and 2019

	Note	2020	2019
Property operating income:			
Rentals from investment properties	14	\$ 1,098,680	\$ 1,149,450
Property operating costs		(435,014)	(438,475)
		663,666	710,975
Net income (loss) from equity accounted investments	4	(16,986)	31,201
Finance cost - operations	15	(228,869)	(256,496)
Finance income	15	33,399	15,036
Trust expenses		(14,297)	(27,293)
Fair value adjustment on financial instruments	15	82,974	(19,483)
Fair value adjustment on real estate assets	3	(1,195,958)	(103,903)
Gain (loss) on sale of real estate assets, net of related costs	3	(2,229)	25,632
Net income (loss) before income taxes		(678,300)	375,669
Income tax (expense) recovery	21	53,741	(35,380)
Net income (loss)		(624,559)	340,289
Other comprehensive loss:			
Items that are or may be reclassified subsequently to net income (loss)	13	(86,662)	(125,326)
Total comprehensive income (loss) attributable to unitholders		\$ (711,221)	\$ 214,963

See accompanying notes to the consolidated financial statements.

H&R REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Changes in Unitholders' Equity

(In thousands of Canadian dollars)

Years ended December 31, 2020 and 2019

UNITHOLDERS' EQUITY	Note	Value of Units	Accumulated net income	Accumulated distributions	Accumulated other comprehensive income	Total
Unitholders' equity, January 1, 2019		\$ 5,366,464	\$ 5,558,062	\$ (4,096,250)	\$ 371,824	\$ 7,200,100
Proceeds from issuance of Units		23,035	-	-	-	23,035
Net income		-	340,289	-	-	340,289
Distributions to unitholders		-	-	(394,181)	-	(394,181)
Other comprehensive loss	13	-	-	-	(125,326)	(125,326)
Unitholders' equity, December 31, 2019		5,389,499	5,898,351	(4,490,431)	246,498	7,043,917
Proceeds from issuance of Units		2,267	-	-	-	2,267
Net loss		-	(624,559)	-	-	(624,559)
Distributions to unitholders		-	-	(263,572)	-	(263,572)
Other comprehensive loss	13	-	-	-	(86,662)	(86,662)
Unitholders' equity, December 31, 2020		\$ 5,391,766	\$ 5,273,792	\$ (4,754,003)	\$ 159,836	\$ 6,071,391

See accompanying notes to the consolidated financial statements.

H&R REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

Years ended December 31, 2020 and 2019

	Note	2020	2019
Cash provided by (used in):			
Operations:			
Net income (loss)		\$ (624,559)	\$ 340,289
Finance cost - operations	15	228,869	256,496
Interest paid		(247,723)	(273,701)
Items not affecting cash:			
Net (income) loss from equity accounted investments	4	16,986	(31,201)
Rent amortization of tenant inducements	14	2,661	2,354
Fair value adjustment on real estate assets	3	1,195,958	103,903
(Gain) loss on sale of real estate assets, net of related costs	3	2,229	(25,632)
Fair value adjustment on financial instruments	15	(82,974)	19,483
Unit-based compensation expense (recovery)	12(b)	(10,341)	10,144
Deferred income taxes (recovery)	21	(54,000)	35,267
Change in other non-cash operating items	16	(178)	(19,363)
		426,928	418,039
Investing:			
Properties under development:			
Acquisitions	3	(34,710)	(14,595)
Additions	3, 16	(166,179)	(233,638)
Investment properties:			
Net proceeds on disposition of real estate assets		95,904	612,510
Acquisitions	3	(33,506)	(188,454)
Redevelopment	3, 16	(73,955)	(125,060)
Capital expenditures	3	(52,980)	(64,234)
Leasing expenses and tenant inducements	3	(49,927)	(44,756)
Equity accounted investments, net		8,200	253,941
Mortgages receivable, net		123,710	(204,294)
Restricted cash	6	199	3,173
		(183,244)	(5,407)
Financing:			
Unsecured term loans	8(d)	-	250,000
Lines of credit	8(d)	(295,959)	463,878
Mortgages payable:			
New mortgages payable	8(a)	214,772	224,631
Principal repayments	8(a)	(193,785)	(617,689)
Redemption of debentures payable	8(b)	(337,500)	(350,000)
Proceeds from issuance of debentures payable	8(b)	646,703	-
Proceeds from issuance of Units		(124)	6,296
Distributions to unitholders		(263,572)	(394,181)
		(229,465)	(417,065)
Increase (decrease) in cash and cash equivalents		14,219	(4,433)
Cash and cash equivalents, beginning of year	7	48,640	53,073
Cash and cash equivalents, end of year	7	\$ 62,859	\$ 48,640

See note on supplemental cash flow information (note 16).

See accompanying notes to the consolidated financial statements.

H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2020 and 2019

H&R Real Estate Investment Trust (the "REIT") is an unincorporated open-ended trust domiciled in Canada. The REIT owns, operates and develops commercial and residential properties across Canada and in the United States. The REIT's units ("Units") are listed and posted for trading on the Toronto Stock Exchange ("TSX") under the symbol HR.UN. The principal office and centre of administration of the REIT is located at 3625 Dufferin Street, Suite 500, Toronto, Ontario M3K 1N4. Unitholders of the REIT participate pro rata in distributions and, in the event of termination of the REIT, participate pro rata in the net assets remaining after satisfaction of all liabilities.

Countries around the world have been affected by the COVID-19 virus, which was declared a pandemic by The World Health Organization on March 11, 2020. The outbreak of COVID-19 has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. The governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The duration and full impact of the COVID-19 pandemic on the REIT is unknown at this time, as is the efficacy of the government's interventions. The extent of the effect of COVID-19 on the REIT's operational and financial performance will depend on numerous factors including the duration, spread, time frame and effectiveness of vaccination roll-out, all of which are uncertain and difficult to predict. As a result, it is not currently possible to ascertain the long term impact of COVID-19 on the REIT's business and operations. Certain aspects of the REIT's business and operations that have been and will continue to be impacted include rental income, occupancy, tenant inducements and future demand for space. In the preparation of the consolidated financial statements, the REIT has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of its assets. The REIT has updated its future cash flows assumptions and its capitalization rates, terminal capitalization rates, and discount rates applied to these cash flows as well as updated its assumptions around the valuation of its accounts receivable and mortgages receivable.

1. Basis of preparation:

(a) Statement of compliance

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

The consolidated financial statements were approved by the Board of Trustees of the REIT on February 11, 2021.

(b) Functional currency and presentation

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

The REIT presents its consolidated statements of financial position based on the liquidity method, where all assets and liabilities are presented in ascending order of liquidity.

(c) Basis of measurement

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

- (i) Real estate assets;
- (ii) Assets classified as held for sale;
- (iii) Certain mortgages receivable;
- (iv) Derivative instruments;
- (v) Liabilities for cash-settled unit-based compensation; and
- (vi) Exchangeable units.

H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2020 and 2019

1. Basis of preparation (continued):

(d) Use of estimates and judgements

The preparation of these consolidated 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 fair value of real estate assets (note 3).

(ii) Use of judgements

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

- Valuations of real estate assets

Real estate assets, which consist of investment properties and properties under development, are carried on the consolidated statements of financial position at fair value, as determined by either external independent appraisers or by the REIT's internal valuation team. The valuations are based on a number of methods and significant assumptions, such as capitalization rates, terminal capitalization rates, discount rates and estimates of future cash flows. Valuation of real estate assets is one of the principal estimates and uncertainties of these consolidated financial statements. Refer to note 3 for further information on estimates and significant 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, where the REIT is the lessor, 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.

H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2020 and 2019

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 there is an indication of impairment in respect of the REIT's investment in associates or joint ventures, the whole carrying value of the investment will be tested for impairment as a single asset under IAS 36, *Impairment of Assets* by comparing the recoverable amount with its carrying value. Any resulting impairment loss will be charged against the carrying value of the investment in associates or joint ventures and recognized in net income.

- 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.

2. Significant accounting policies:

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

(a) *Basis of consolidation:*

These consolidated 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.

(b) *Investment properties:*

The REIT's investment properties are held to earn rental income or for capital appreciation, or both, but not for sale in the ordinary course of business. As such, investment properties are measured at fair value, under IAS 40, *Investment Property* ("IAS 40") using valuations prepared by either the REIT's internal valuation team or external independent appraisers.

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.

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 included in 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.

H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2020 and 2019

2. Significant accounting policies (continued):

(c) *Properties under development:*

Properties under development for future use as investment property are accounted for as investment property under IAS 40. 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 qualifying assets until substantially complete. 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.

(d) *Assets and liabilities held for sale:*

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 considered to be 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.

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 are classified separately from other assets and other liabilities in the consolidated statement of financial position. These amounts are not offset or presented as a single amount.

(e) *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.

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.

H&R REAL ESTATE INVESTMENT TRUST

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

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2. Significant accounting policies (continued):

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.

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 from 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 2020 and the 2019 comparative year.

For financial statement reporting purposes, the tax deductibility of the REIT's distributions is treated as an exemption from taxation as the REIT has distributed and is committed to continue distributing all of its taxable income to its unitholders.

(f) *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 12(b). These plans are considered to be a cash-settled liability under IFRS 2, *Share-based Payment* and as a result are measured at each reporting period and at settlement date at their 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.

(g) *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.

(h) *Restricted cash:*

Restricted cash includes amounts relating to Internal Revenue Code Section 1031 U.S. property exchanges, amounts held in reserve by lenders to fund mortgage payments, repairs and capital expenditures or property tax payments.

(i) *Foreign currency translation:*

The REIT accounts for its investment in H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco"), a wholly owned subsidiary of the REIT in the United States ("foreign operations"), as a U.S. dollar functional currency foreign operation. Assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rates in effect at the consolidated 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 until there is a reduction in the REIT's net investment in the foreign operations. The U.S. dollar denominated senior debenture, unsecured term loan and lines of credit are 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 these obligations are recorded as a foreign currency translation adjustment in accumulated other comprehensive income.

Assets and liabilities denominated in a currency other than the functional currency are translated into the functional currency at the exchange rates in effect at the consolidated statements of financial position dates and revenue and expenses are translated at the actual exchange rate on the date incurred, with any gain (loss) recorded in net income, unless the asset or liability is designated as a hedge.

H&R REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2020 and 2019

2. Significant accounting policies (continued):

(j) *Units:*

Under IAS 32, *Financial Instruments: Presentation* ("IAS 32"), puttable instruments, such as the 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, the REIT met the exemption criteria under IAS 32 for equity classification. Nevertheless, the Units are not considered ordinary units under IAS 33, *Earnings Per Share*, and therefore an income per unit calculation is not presented.

(k) *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 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.

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

An associate is an entity over which the REIT 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 REIT considers investments in joint arrangements to be joint ventures when the REIT jointly controls one or more investment properties with another party and has 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 REIT's interests in its associates and joint ventures are accounted for using the equity method and are carried on the consolidated statements of financial position at cost, adjusted for the REIT's proportionate share of post-acquisition changes in the net assets, less any identified impairment loss. The REIT's share of profits and losses is recognized in the share of net income from the associate or joint venture investments in the consolidated statements of comprehensive income and the REIT's other comprehensive income includes its 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 associate or joint venture and that event has a negative impact on the future cash flows of the associate or joint venture that can be reliably estimated.

(m) *Joint operations:*

The REIT considers investments in joint arrangements to be joint operations when the REIT makes operating, financial and strategic decisions over one or more investment properties jointly with another party and has 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 REIT will include its share of the underlying assets, liabilities, revenue and expenses in its financial results.

(n) *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.

H&R REAL ESTATE INVESTMENT TRUST

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2. Significant accounting policies (continued):

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 consolidated 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.

(o) *Levies:*

Under IFRS Interpretations Committee ("IFRIC") Interpretation 21, *Levies* ("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.

(p) *Subsidiaries:*

Subsidiaries are entities controlled by the REIT. The REIT controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(q) *Revenue from contracts with customers:*

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") contains a single, control-based model that applies to contracts with customers and provides two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized.

The REIT earns revenue from its tenants from various sources consisting of base rent for the use of space leased, recoveries of property tax and property insurance, and service revenue from utilities, cleaning and property maintenance costs.

Revenue from lease components is recognized on a straight-line basis over the lease term and includes the recovery of property taxes and insurance. Revenue recognition commences when a tenant has the right to use the premises and is recognized pursuant to the terms of the lease agreement.

Revenue related to the services component of the REIT's leases is accounted for in accordance with IFRS 15. These services consist primarily of utilities, cleaning and property maintenance costs for which the revenue is recognized over time, typically as the costs are incurred, which is when the services are provided.

(r) *Leases:*

The REIT, as a lessee, recognizes assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value and is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

(s) *Financial instruments:*

IFRS 9, *Financial Instruments* ("IFRS 9") requires financial assets to be classified and measured based on the business model in which they are managed and the characteristics of their contractual cash flows. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss.

H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2020 and 2019

2. Significant accounting policies (continued):

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss ("FVTPL"):

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All of the REIT's financial assets not classified as measured at amortized cost, as described above, are measured at FVTPL.

Under IFRS 9, the change in fair value of financial liabilities attributable to changes in the credit risk of the liability is presented in other comprehensive income, and the remaining amount of change in fair value is presented in profit or loss.

For impairment of financial assets, IFRS 9 has a forward-looking 'expected credit loss' ("ECL") model. A provision for ECL is recognized at each balance sheet date for all financial assets measured at amortized cost.

The REIT applies the practical expedient to determine ECL on accounts receivable using a provision matrix based on historical credit loss experiences adjusted for current and forecasted future economic conditions to estimate lifetime ECL. The other ECL models applied to other financial assets also require judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset.

Impairment losses are recorded in finance cost - operations in the consolidated statement of comprehensive income with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

IFRS 9 also includes a general hedge accounting standard which aligns hedge accounting more closely with risk management. The REIT's risk management strategy is disclosed in note 18. The U.S. dollar denominated senior debenture, unsecured term loan and line of credit are designated as a hedge of the REIT's investment in self-sustaining foreign operations.

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Notes to Consolidated Financial Statements

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Years ended December 31, 2020 and 2019

3. Real estate assets:

	Note	December 31, 2020		December 31, 2019	
		Investment Properties	Properties Under Development	Investment Properties	Properties Under Development
Opening balance, beginning of year		\$ 11,988,347	\$ 683,145	\$ 12,683,709	\$ 404,814
Acquisitions, including transaction costs		33,506	34,710	188,454	14,595
Transfer of investment property from equity accounted investments	16	15,665	-	-	-
Dispositions		(22,145)	-	(749,830)	-
Transfer of investment properties to assets classified as held for sale		(219,050)	-	(116,805)	-
Transfer of investment properties to properties under development		(665)	665	-	-
Operating capital:					
Capital expenditures		52,980	-	64,234	-
Leasing expenses and tenant inducements		49,927	-	44,756	-
Development capital:					
Redevelopment (including capitalized interest)		77,867	-	130,409	-
Additions to properties under development (including capitalized interest)		-	182,876	-	245,938
Amortization of tenant inducements and straight-lining of contractual rents		13,905	-	4,807	-
Transfer of properties under development that have reached substantial completion to investment properties		436,400	(436,400)	-	-
Change in right-of-use asset ⁽¹⁾		-	(927)	-	32,002
Fair value adjustment on real estate assets		(1,195,958)	-	(103,903)	-
Change in foreign exchange		(81,649)	(14,220)	(157,484)	(14,204)
Closing balance, end of year		\$ 11,149,130	\$ 449,849	\$ 11,988,347	\$ 683,145

(1) As at December 31, 2020, the right-of-use asset in a leasehold interest of \$30,336 (2019 - \$32,002) was measured at an amount equal to the corresponding lease liability (note 10).

Asset acquisitions:

During the year ended December 31, 2020, the REIT acquired:

- (a) two industrial properties and one office property (year ended December 31, 2019 - two residential properties and one industrial property); and
- (b) one industrial property under development and one residential property under development (year ended December 31, 2019 - one industrial property under development and one residential property under development).

The results of operations for these acquisitions are included in these consolidated financial statements from the date of acquisition. The following table summarizes the purchase price inclusive of transaction costs of the assets as at the respective dates of acquisition:

	December 31 2020	December 31 2019
Assets		
Investment properties	\$ 33,477	\$ 188,375
Properties under development	34,710	14,595
	\$ 68,187	\$ 202,970

H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2020 and 2019

3. Real estate assets (continued):

During the year ended December 31, 2020, the REIT incurred additional costs of \$29 (year ended December 31, 2019 - \$79) in respect of prior year acquisitions which are not included in the above table.

Asset dispositions:

During the year ended December 31, 2020, the REIT sold two residential properties, two retail properties and a 50% ownership interest in one industrial property and recognized, in aggregate, a loss on sale of real estate assets of \$2,229.

During the year ended December 31, 2019, the REIT sold two office properties, one residential property, three retail properties, a 50% ownership interest in one industrial property and a parcel of land adjacent to the REIT's head office and recognized, in aggregate, a gain on sale of real estate assets of \$25,632.

Fair value disclosure:

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

- (i) Discounted cash flow analyses which are based upon, among other things, future cash inflows in respect of rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the reporting period, less future cash outflows in respect of such leases and capital expenditures for the property utilizing appropriate discount rates and terminal capitalization rates, generally over a minimum term of 10 years; and
- (ii) The direct capitalization method which calculates fair value by applying a capitalization rate to future cash flows based on stabilized net operating income.

During the year ended December 31, 2020, certain properties were valued by professional external independent appraisers. When an external independent appraisal is obtained, the REIT's internal valuation team assesses the significant assumptions used in the independent appraisal and holds discussions with the external independent appraiser on the reasonableness of their assumptions. External independent appraisals received throughout the year represent 13.4% of the fair value of investment properties as at December 31, 2020 (year ended December 31, 2019 - 37.1%).

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

The following table highlights the significant assumptions used in determining the fair value of the REIT's investment properties:

	Capitalization Rates			Discount Rates*			Terminal Capitalization Rates*		
	Canada	United States	Total	Canada	United States	Total	Canada	United States	Total
December 31, 2020	6.63%	5.39%	6.22%	7.54%	6.63%	7.35%	6.94%	6.03%	6.75%
December 31, 2019	5.84%	5.34%	5.69%	6.70%	6.63%	6.69%	6.08%	5.93%	6.06%

* Excludes the residential segment.

In light of the COVID-19 pandemic, the REIT has updated its assumptions used in determining the fair value of investment properties. The oil and gas industry has experienced significant declines in commodity prices as a result of the continued shift to renewable energy. The REIT applied higher discount and capitalization rates to its office properties leased to oil and gas tenants due to increased vacancy rates causing lower market rents in Calgary, AB and Houston, TX. The retail industry (mainly the REIT's enclosed shopping centres) has also experienced significant hardship with all non-essential stores being closed for a significant period of time. The REIT applied higher discount and capitalization rates as well as revised leasing assumptions to its retail properties in enclosed shopping centres.

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3. Real estate assets (continued):

Fair value sensitivity:

The REIT's investment properties are classified as level 3 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 which is representative of the discount rate and terminal capitalization rate applied as at December 31, 2020:

Capitalization Rate Sensitivity Increase (Decrease)	Capitalization Rate	Fair Value of Investment Properties	Fair Value Variance	% Change
(0.75%)	5.47%	\$ 12,677,804	\$ 1,528,674	13.71%
(0.50%)	5.72%	\$ 12,123,704	\$ 974,574	8.74%
(0.25%)	5.97%	\$ 11,616,011	\$ 466,881	4.19%
December 31, 2020	6.22%	\$ 11,149,130	\$ -	0.00%
0.25%	6.47%	\$ 10,718,329	\$ (430,801)	(3.86%)
0.50%	6.72%	\$ 10,319,582	\$ (829,548)	(7.44%)
0.75%	6.97%	\$ 9,949,439	\$ (1,199,691)	(10.76%)

4. Equity accounted investments:

The REIT has entered into a number of arrangements with other parties for the purpose of jointly developing, 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 joint control over the operations of such properties. The REIT's arrangements fall into three categories: a) joint operations, where the REIT has joint control over the operations and the REIT has rights to the assets and obligations for the liabilities of the properties; b) joint ventures, where the REIT has joint control over the operations, where each investment is structured as a separate vehicle and the REIT has rights to the net assets of the entities; and c) investments in associates, where the REIT has significant influence over the investment but does not have joint control over the operations. Joint operations are accounted for on a proportionately consolidated basis. Joint ventures and investments in associates are accounted for using the equity method.

During the year ended December 31, 2020, the REIT: (i) disposed of one industrial property; (ii) purchased one industrial property under development; and (iii) purchased the remaining 49.5% ownership interest in one industrial property previously held in a joint venture. As the REIT now owns 100% of the property that was previously held in a joint venture, it is consolidated in these consolidated financial statements.

During the year ended December 31, 2019, the REIT: (i) transferred LIC Operator Co., L.P. ("Jackson Park") from properties under development to investment properties as it had reached substantial completion; (ii) received net cash distributions of \$253,941 including U.S. \$194,800 from Jackson Park as part of Jackson Park's refinancing; (iii) disposed of three industrial properties; and (iv) increased its interest in Shoreline Developments Partners LP ("Shoreline") to 31.2%.

H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2020 and 2019

4. Equity accounted investments (continued):

	Location	Operating segment	Ownership interest	
			December 31 2020	December 31 2019
Investments in joint ventures: ⁽¹⁾				
Slate Drive	Canada	Industrial	50.0%	-
One industrial property (2019 - three)	United States	Industrial	50.5%	50.5%
Hercules Project	United States	Residential	31.7%	31.7%
The Pearl	United States	Residential	33.3%	33.3%
Esterra Park	United States	Residential	33.3%	33.3%
Shoreline	United States	Residential	31.2%	31.2%
Investments in associates: ⁽²⁾				
ECHO Realty LP ("ECHO")	United States	Retail	33.6%	33.6%
Jackson Park	United States	Residential	50.0%	50.0%

(1) 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.

(2) Where the REIT has significant influence over the investment but does not have joint control over the operations.

The following tables summarize the total amounts of the financial information of the equity accounted investments 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 as the individual investments are not individually material:

Equity accounted investments in:	December 31, 2020				December 31, 2019			
	---Associates---		Joint Ventures		---Associates---		Joint Ventures	
	ECHO	Jackson Park	(1)	Total	ECHO	Jackson Park	(1)	Total
Investment properties ⁽²⁾	\$ 2,477,430	\$ 1,936,750	\$ 141,945	\$ 4,556,125	\$ 2,493,118	\$ 2,080,000	\$ 71,500	\$ 4,644,618
Properties under development	50,071	-	569,669	619,740	67,898	-	385,070	452,968
Assets classified as held for sale	33,020	-	-	33,020	38,316	-	-	38,316
Other assets	44,939	9,126	1,824	55,889	60,753	12,471	459	73,683
Cash and cash equivalents	29,736	27,860	12,237	69,833	28,778	45,515	11,777	86,070
Debt	(1,004,874)	(1,253,443)	(300,681)	(2,558,998)	(1,049,882)	(1,281,120)	(83,606)	(2,414,608)
Accounts payable and accrued liabilities	(62,132)	(13,149)	(59,121)	(134,402)	(66,168)	(37,364)	(39,593)	(143,125)
Lease liability ⁽²⁾	(119,310)	-	-	(119,310)	(129,538)	-	-	(129,538)
Non-controlling interest	(67,948)	-	-	(67,948)	(70,144)	-	-	(70,144)
Net assets	1,380,932	707,144	365,873	2,453,949	1,373,131	819,502	345,607	2,538,240
REIT's share of net assets	\$ 471,337	\$ 353,903	\$ 130,228	\$ 955,468	\$ 468,857	\$ 410,087	\$ 123,829	\$ 1,002,773

(1) The REIT's investments in joint ventures are comprised of:

- (a) one U.S. industrial property (2019 - three) and one U.S. residential property (2019 - nil); and
- (b) four U.S. residential properties under development (2019 - four) and one Canadian industrial property under development (2019 - nil).

(2) As at December 31, 2020, the total fair value of investment properties, within equity accounted investments, net of the lease liability is \$4,436,815 (December 31, 2019 - \$4,515,080).

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, 2020 and November 30, 2019, respectively.

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4. Equity accounted investments (continued):

Net income (loss) from equity accounted investments in:	December 31, 2020				December 31, 2019			
	----Associates----		Joint Ventures		----Associates----		Joint Ventures	
	ECHO	Jackson Park	(1)	Total	ECHO	Jackson Park	(1)	Total
Rentals from investment properties	\$ 215,970	\$ 89,825	\$ 4,791	\$ 310,586	\$ 214,633	\$ 95,658	\$ 8,119	\$ 318,410
Property operating costs	(51,552)	(35,040)	(626)	(87,218)	(45,971)	(28,910)	(384)	(75,265)
Net income from equity accounted investments	1,425	-	-	1,425	1,930	-	-	1,930
Finance income	625	-	276	901	1,086	1,547	253	2,886
Finance cost - operations	(48,393)	(46,266)	(176)	(94,835)	(53,445)	(42,173)	(932)	(96,550)
Trust expenses	(11,068)	-	(85)	(11,153)	(9,961)	-	(139)	(10,100)
Fair value adjustment on financial instruments	(4,340)	-	-	(4,340)	(7,571)	(8,604)	-	(16,175)
Fair value adjustment on real estate assets	(15,497)	(104,423)	7,433	(112,487)	(22,556)	(18,601)	11,756	(29,401)
Loss on sale of real estate assets	(4,022)	-	(928)	(4,950)	(513)	-	(4,803)	(5,316)
Income tax (expense) recovery	(120)	(19)	333	194	(161)	(67)	65	(163)
Net income (loss)	83,028	(95,923)	11,018	(1,877)	77,471	(1,150)	13,935	90,256
Net income attributable to non-controlling interest	(2,369)	-	-	(2,369)	(3,489)	-	-	(3,489)
Net income (loss) attributable to owners	80,659	(95,923)	11,018	(4,246)	73,982	(1,150)	13,935	86,767
REIT's share of net income (loss) attributable to unitholders	\$ 27,099	\$ (47,961)	\$ 3,876	\$ (16,986)	\$ 24,853	\$ (575)	\$ 6,923	\$ 31,201

(1) The REIT's share of net income from joint ventures was earned from its investments in one U.S. industrial property (2019 - three) and one U.S. residential property (2019- nil).

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, 2019 to November 30, 2020 and December 1, 2018 to November 30, 2019, respectively.

5. Assets and liabilities classified as held for sale:

As at December 31, 2020, the REIT had one U.S. office property and a 50% interest in one industrial property (December 31, 2019 - two U.S. residential properties and a 50% interest in one industrial property) classified as held for sale.

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

	December 31 2020	December 31 2019
Assets		
Investment properties	\$ 219,050	\$ 133,905
Restricted cash	-	1,768
	\$ 219,050	\$ 135,673
Liabilities		
Mortgage payable	\$ -	\$ 49,416

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6. Other assets:

	Note	December 31 2020	December 31 2019
Current:			
Mortgages receivable ⁽¹⁾		\$ 270,643	\$ 260,333
Prepaid expenses and sundry assets		63,058	49,691
Accounts receivable ⁽²⁾ - net of provision for expected credit loss of \$15,135 (2019 - \$1,073)		19,618	11,360
Restricted cash		7,732	7,931
Derivative instruments	11	730	752
Non-current:			
Mortgages receivable ⁽¹⁾		154,843	294,697
Derivative instruments	11	2,464	-
		\$ 519,088	\$ 624,764

- (1) Mortgages receivable include \$240,716 classified as FVTPL and \$184,770 classified as amortized cost (December 31, 2019 - \$227,332 and \$327,698, respectively). As at December 31, 2020, mortgages receivable bear interest at effective rates between 4.40% and 14.32% per annum (December 31, 2019 - between 3.25% and 14.32% per annum) with a weighted average effective rate of 9.78% per annum (December 31, 2019 - 7.06%), and mature between 2021 and 2029 (December 31, 2019 - mature between 2020 and 2029).

Future repayments of mortgages receivable are as follows:

	December 31 2020
Years ending December 31:	
2021	\$ 270,643
2022	37,132
2023	82,146
2024	-
2025	-
Thereafter	35,565
	\$ 425,486

- (2) In determining the expected credit loss, the REIT performed a tenant-by-tenant assessment considering the payment history and future expectations of default based on actual and expected insolvency filings. The following is a summary of the changes in the provision for expected credit loss impacted by COVID-19:

	December 31 2020	December 31 2019
Opening balance, beginning of year	\$ 1,073	\$ 749
Bad debt expense*	39,708	2,143
Accounts receivable write-off*	(25,646)	(1,819)
Closing balance, end of year	\$ 15,135	\$ 1,073

* Includes \$5,855 of rent abatements granted under the Canada Emergency Commercial Rent Assistance (CECRA) program.

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7. Cash and cash equivalents:

Cash and cash equivalents at December 31, 2020 includes cash on hand of \$62,587 (December 31, 2019 - \$48,370) and bank term deposits of \$272 (December 31, 2019 - \$270) bearing interest at a rate of 0.09% (December 31, 2019 - 1.61%).

Included in cash and cash equivalents at December 31, 2020 are U.S. dollar denominated amounts of U.S. \$27,127 (December 31, 2019 - U.S. \$21,620). The Canadian equivalent of these amounts is \$34,451 (December 31, 2019 - \$28,106).

8. Debt:

The REIT's debt consists of the following items:

	Note	December 31 2020	December 31 2019
Mortgages payable	8(a)	\$ 3,623,652	\$ 3,630,858
Debentures payable	8(b)	1,568,817	1,257,731
Unsecured term loans	8(c)	688,029	692,229
Lines of credit	8(d)	487,818	795,042
		\$ 6,368,316	\$ 6,375,860

(a) Mortgages payable:

The mortgages payable are secured by 111 real estate assets with an aggregate fair value of \$7,779,942, bear interest at fixed rates with a contractual weighted average rate of 4.01% (December 31, 2019 - 4.08%) per annum and mature between 2021 and 2032 (December 31, 2019 - maturing between 2020 and 2032). Included in mortgages payable at December 31, 2020 are U.S. dollar denominated mortgages of U.S. \$1,053,304 (December 31, 2019 - U.S. \$1,045,921). The Canadian equivalent of these amounts is \$1,337,696 (December 31, 2019 - \$1,359,697).

Mortgages payable related to certain properties are 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 2020
Years ending December 31:	
2021	\$ 939,535
2022	608,545
2023	449,728
2024	94,504
2025	148,049
Thereafter	1,396,602
	3,636,963
Financing costs and mark-to-market adjustment arising on acquisitions	(13,311)
	\$ 3,623,652

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Years ended December 31, 2020 and 2019

8. Debt (continued):

The following is a summary of the changes in mortgages payable:

	Note	December 31 2020	December 31 2019
Opening balance, beginning of year		\$ 3,630,858	\$ 4,150,459
Principal repayments:			
Scheduled amortization on mortgages		(122,857)	(123,651)
Mortgage repayments		(70,928)	(494,038)
New mortgages		214,772	224,631
Mortgage reclassified to liabilities held for sale	5	-	(49,416)
Effective interest rate accretion on mortgages		2,712	2,552
Change in foreign exchange		(30,905)	(79,679)
Closing balance, end of year		\$ 3,623,652	\$ 3,630,858

(b) Debentures payable:

The full terms of the debentures are contained in the trust indenture and supplemental trust indentures; the following table summarizes the key terms:

				December 31 2020	December 31 2019
	Maturity	Contractual interest rate	Effective interest rate	Principal amount	Carrying value
Senior Debentures					
Series P Senior Debentures ⁽¹⁾	February 13, 2020	3.67%	(1)	\$ -	\$ 162,469
Series F Senior Debentures ⁽²⁾	March 2, 2020	4.45%	4.58%	-	174,954
Series L Senior Debentures	May 6, 2022	2.92%	3.11%	325,000	323,776
Series O Senior Debentures	January 23, 2023	3.42%	3.44%	250,000	249,360
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	348,758
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	398,105
Series R Senior Debentures	June 2, 2026	2.91%	3.00%	250,000	248,818
		3.39%	3.49%	\$ 1,575,000	\$ 1,568,817
					\$ 1,257,731

⁽¹⁾ Denominated as \$125,000 U.S. dollars and bore interest at a rate equal to the 3-month London Interbank Offered Rate plus 79 basis points. The REIT entered into an interest rate swap on the Series P senior debentures to fix the interest rate at 3.67% per annum (note 11). In February 2020, the REIT repaid all of its Series P senior debentures upon maturity for a cash payment of U.S. \$125,000.

⁽²⁾ In March 2020, the REIT repaid all of its Series F senior debentures upon maturity for a cash payment of \$175,000.

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8. Debt (continued):

At its option, the REIT may redeem any of the fixed rate Senior Debentures, in whole at any time, or in part from time to time (i) in the case of the Series O, N, Q and R senior debentures, prior to the specified par call date and (ii) in the case of any Series L senior debentures, prior to maturity on payment of a redemption price equal to the greater of (a) the Canada Yield Price as defined in the relevant supplemental trust indenture and (b) par, together in each case with accrued and unpaid interest to the date fixed for redemption. Between the specified par call date and maturity, the applicable Senior Debentures may be redeemed on payment of a redemption price equal to par. The REIT will give notice of any redemption at least 10 days (for Series Q and Series R senior debentures) or 30 days (for Series L, Series N and Series O senior debentures) but not more than 60 days before the date fixed for redemption, which redemption (in the case of Series Q and Series R senior debentures) may be upon such conditions as may be specified in such notice. 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 Series L, O, N, Q and R unsecured senior debentures (collectively, the "Senior Debentures") pay interest semi-annually as noted below:

Senior Debentures	Interest Payment Dates
Series L	May 6 and November 6
Series O	January 23 and July 23
Series N	January 30 and July 30
Series Q	June 16 and December 16
Series R	June 2 and December 2

The following is a summary of the changes in the carrying value of debentures payable:

	December 31 2020	December 31 2019
Senior Debentures		
Carrying value, beginning of year	\$ 1,257,731	\$ 1,613,040
Redemption - Series M Senior Debentures	-	(150,000)
Redemption - Series K Senior Debentures	-	(200,000)
Redemption - Series P Senior Debentures	(162,500)	-
Redemption - Series F Senior Debentures	(175,000)	-
Issuance - Series Q Senior Debentures	397,900	-
Issuance - Series R Senior Debentures	248,803	-
Change in foreign exchange	-	(7,500)
Accretion adjustment	1,883	2,191
Carrying value, end of year	\$ 1,568,817	\$ 1,257,731

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

Years ended December 31, 2020 and 2019

8. Debt (continued):

(c) Unsecured term loans:

The REIT has the following unsecured term loans:

	Maturity Date	December 31 2020	December 31 2019
H&R REIT unsecured term loan #1 ⁽¹⁾	March 17, 2021	\$ 188,029	\$ 192,229
H&R REIT unsecured term loan #2 ⁽²⁾	March 7, 2024	250,000	250,000
H&R REIT unsecured term loan #3 ⁽³⁾	January 6, 2026	250,000	250,000
		\$ 688,029	\$ 692,229

⁽¹⁾ The total facility as at December 31, 2020 is \$200,000, plus a 3% allowance relating to the fluctuation of the foreign exchange rate, and can be drawn in either Canadian or U.S. dollars. The REIT entered into an interest rate swap to fix the interest rate at 2.56% per annum on U.S. \$130,000 of the U.S. dollar denominated borrowing of this facility. The swap matures on March 17, 2021 (note 11).

⁽²⁾ In November 2020, the interest rate swap was amended to fix the interest rate at 3.17% per annum and the maturity date was extended to May 7, 2030. Previously, the interest rate was fixed at 3.33% per annum with a maturity date of March 7, 2026 (note 11).

⁽³⁾ The REIT entered into an interest rate swap to fix the interest rate at 3.91% per annum. The swap matures on January 6, 2026 (note 11).

Included in unsecured term loans at December 31, 2020, are U.S. denominated amounts of \$140,000 (December 31, 2019 - U.S. \$140,000). The Canadian equivalent of these amounts is \$177,800 (December 31, 2019 - \$182,000).

(d) Lines of credit:

The REIT has the following lines of credit:

	Maturity Date	Total Facility	Amount Drawn	Outstanding Letters of Credit	Available Balance
Revolving unsecured operating lines of credit:					
H&R REIT revolving unsecured line of credit #1	April 17, 2021	\$ 500,000	\$ -	\$ -	\$ 500,000
H&R REIT revolving unsecured line of credit #2	September 20, 2022	150,000	(144,620)	-	5,380
H&R REIT revolving unsecured line of credit #3	January 31, 2023	200,000	(65,230)	-	134,770
H&R REIT revolving unsecured line of credit #4	September 20, 2023	350,000	(4,218)	(1,985)	343,797
H&R REIT revolving unsecured letter of credit facility		60,000	-	(29,707)	30,293
Sub-total		1,260,000	(214,068)	(31,692)	1,014,240
Revolving secured operating lines of credit⁽¹⁾:					
H&R REIT and CrestPSP revolving secured line of credit	April 30, 2021	62,500	(51,500)	(105)	10,895
Primaris revolving secured line of credit	December 31, 2021	300,000	(222,250)	-	77,750
Sub-total		362,500	(273,750)	(105)	88,645
December 31, 2020		\$ 1,622,500	\$ (487,818)	\$ (31,797)	\$ 1,102,885
December 31, 2019		\$ 1,122,500	\$ (795,042)	\$ (36,881)	\$ 290,577

⁽¹⁾ Secured by certain investment properties.

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8. Debt (continued):

The lines of credit can be drawn in either Canadian or U.S. dollars and bear interest at a rate approximating the prime rate of a Canadian chartered bank.

Included in lines of credit at December 31, 2020 are U.S. dollar denominated amounts of U.S. \$330,000 (December 31, 2019 - U.S. \$375,500). The Canadian equivalent of these amounts is \$419,100 (December 31, 2019 - \$488,150).

The following is a summary of the changes in unsecured term loans and lines of credit:

	December 31, 2020		December 31, 2019	
	Unsecured Term Loans	Lines of Credit	Unsecured Term Loans	Lines of Credit
Opening balance, beginning of year	\$ 692,229	\$ 795,042	\$ 450,629	\$ 331,944
Net advances (repayments)	-	(295,959)	250,000	463,878
Change in foreign exchange	(4,200)	(11,265)	(8,400)	(780)
Closing balance, end of year	\$ 688,029	\$ 487,818	\$ 692,229	\$ 795,042

9. Exchangeable units:

Certain of the REIT's subsidiaries have in aggregate 14,883,065 (December 31, 2019 - 15,316,239) exchangeable units outstanding which are puttable instruments where, upon redemption, the REIT has a contractual obligation to issue Units. In August 2020, 433,174 exchangeable units were exchanged for Units. As a subsidiary of the REIT previously held 433,174 Units to mirror these exchangeable units, the number of outstanding Units did not increase as a result of this exchange. Holders of all exchangeable units are entitled to receive the economic equivalence of distributions on a per unit amount equal to a per Unit amount provided to holders of Units. These puttable instruments are classified as a liability under IFRS and are measured at fair value through profit or loss. At the end of each reporting period, the fair value is determined by using the quoted price of Units on the TSX as the exchangeable units are exchangeable into Units at the option of the holder. The quoted price as at December 31, 2020 was \$13.29 (December 31, 2019 - \$21.10) per Unit.

A summary of the carrying value of exchangeable units and the changes during the respective years are as follows:

	December 31 2020	December 31 2019
Carrying value, beginning of year	\$ 323,173	\$ 329,482
Exchanged for Units	(4,228)	(14,448)
(Gain) loss on fair value of exchangeable units	(121,149)	8,139
Carrying value, end of year	\$ 197,796	\$ 323,173

The REIT has entered into various exchange agreements that provide, among other things, the mechanics whereby exchangeable units may be exchanged for Units.

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10. Accounts payable and accrued liabilities:

	Note	December 31 2020	December 31 2019
Current:			
Other accounts payable and accrued liabilities		\$ 205,572	\$ 145,985
Distributions payable		17,350	-
Debt interest payable		21,852	23,282
Prepaid rent		35,355	41,564
Derivative instruments	11	42,289	9,352
Unit-based compensation payable:			
Options	12(b)	789	12,016
Incentive units	12(b)	3,807	4,576
Non-current:			
Lease liability ⁽¹⁾		30,336	32,002
Security deposits		6,709	5,890
Unit-based compensation payable:			
Incentive units	12(b)	5,127	6,928
		\$ 369,186	\$ 281,595

⁽¹⁾ Corresponds to a right-of-use asset in a leasehold interest (note 3).

11. Derivative instruments:

		Maturity	Fair value asset (liability)*		Net gain (loss) on derivative instruments	
			December 31	December 31	December 31	December 31
			2020	2019	2020	2019
Debenture interest rate swap	⁽¹⁾	March 1, 2019	\$ -	\$ -	\$ -	\$ (592)
Debenture interest rate swap	⁽²⁾	February 13, 2020	-	(404)	404	(73)
Term loan interest rate swap	⁽³⁾	March 17, 2021	(469)	752	(1,221)	(4,101)
Term loan interest rate swap	⁽⁴⁾	May 7, 2030	(20,797)	(2,777)	(18,020)	(2,777)
Term loan interest rate swap	⁽⁵⁾	January 6, 2026	(21,023)	(6,171)	(14,852)	(3,801)
Incentive units swap	⁽⁶⁾	2021	730	-	730	-
Incentive units swap	⁽⁶⁾	2022	701	-	701	-
Incentive units swap	⁽⁶⁾	2023	1,763	-	1,763	-
			\$ (39,095)	\$ (8,600)	\$ (30,495)	\$ (11,344)

The REIT entered into interest rate swaps as follows:

- ⁽¹⁾ To fix the interest rate at 2.36% per annum for the Series K senior debentures which settled upon maturity.
- ⁽²⁾ To fix the interest rate at 3.67% per annum for the Series P senior debentures which settled upon maturity.
- ⁽³⁾ To fix the interest rate at 2.56% per annum for the U.S. \$130,000 term loan.
- ⁽⁴⁾ In November 2020, the interest rate swap was amended to fix the interest rate at 3.17% per annum for the \$250,000 term loan and the maturity date was extended to May 7, 2030. Previously, the interest rate was fixed at 3.33% per annum with a maturity date of March 7, 2026.
- ⁽⁵⁾ To fix the interest rate at 3.91% per annum for the \$250,000 term loan.
- ⁽⁶⁾ To fix the payout on incentive units that mature in the respective years.

* 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 (note 6) and derivative instruments in a liability position are recorded in accounts payable and accrued liabilities (note 10).

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12. 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.

(a) Description of Units:

Each Unit 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. The aggregate number of Units which the REIT may issue is unlimited and the aggregate number of special voting units which the REIT may issue is 9,500,000. Units carry the right to participate pro rata in any distributions. As at December 31, 2020, 9,500,000 (December 31, 2019 - 9,500,000) special voting units are issued and outstanding.

Units are listed and posted for trading on the TSX under the symbol HR.UN.

Units are freely transferable and the trustees shall not impose any restriction on the transfer of Units.

Unitholders have the right to require the REIT to redeem their Units on demand. 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 Declaration of Trust.

Upon valid tender for redemption of each Unit, the unitholder is entitled to receive a price per Unit as determined by a formula based on the market price of a Unit. 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).

A summary of the issued and outstanding number of Units and the changes during the respective years are as follows:

	December 31 2020	December 31 2019
Balance, beginning of year	286,690,236	285,677,811
Issuance of Units:		
Options exercised	-	368,306
Incentive units settled in Units	172,847	4,817
Exchangeable units exchanged into Units	-	639,302
Balance, end of year	286,863,083	286,690,236

The weighted average number of basic Units for the year ended December 31, 2020 is 286,804,156 (December 31, 2019 - 286,057,254).

(b) 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, 2020, a maximum of 17,723,110 (December 31, 2019 - 17,723,110) options to purchase Units were authorized to be issued; 10,543,362 (December 31, 2019 - 10,647,642) options have been granted and are outstanding and 7,179,748 (December 31, 2019 - 7,075,468) options have not yet been granted. The exercise price of each option approximates the quoted price of the Units on the date of grant. 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.

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12. Unitholders' equity (continued):

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

	December 31, 2020		December 31, 2019	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	10,647,642	\$ 20.57	11,263,579	\$ 20.51
Granted	-	-	-	-
Exercised	-	-	(615,937)	(19.38)
Expired	(104,280)	23.10	-	-
Outstanding and vested, end of year	10,543,362	\$ 20.55	10,647,642	\$ 20.57

The outstanding and vested options at December 31, 2020 are exercisable at varying prices ranging from \$18.98 to \$23.18 (December 31, 2019 - \$18.98 to \$23.18) with a weighted average remaining life of 3.8 years (December 31, 2019 - 4.8 years).

(ii) Incentive unit plan:

As at December 31, 2020, a maximum of 5,000,000 (December 31, 2019 - 5,000,000) incentive units exchangeable into Units were authorized to be issued. The REIT has granted 1,093,375 (December 31, 2019 - 1,018,896) incentive units which remain outstanding, 184,299 (December 31, 2019 - 11,452) incentive units have been settled for Units and 3,722,326 (December 31, 2019 - 3,969,652) incentive units remain available for granting.

Incentive units are recognized based on the grant date fair value and re-measured at each reporting date. The grant agreements provide that the awards will be satisfied in cash, unless the holder elects to have them satisfied in Units issued from treasury, with the result that the awards are classified as cash-settled unit-based payments and presented as liabilities. 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.

The REIT grants restricted units under the incentive unit plan. As at December 31, 2020, 64.58% of the restricted units granted vest on the third anniversary and 35.42% of the restricted units granted vest on the fifth anniversary of their respective grant dates 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 restricted units are, subject to the holder's election, cash settled upon vesting.

The REIT grants performance units under the incentive unit plan with a three-year performance period for certain senior executives. The performance units are and will be subject to both internal and external measures consisting of both absolute and relative performance over a three-year period and, subject to the holder's election, cash settled upon vesting. In March 2020, the first grant of performance units awarded in 2017 vested at 59% of target.

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

	December 31 2020	December 31 2019
	Incentive units	Incentive units
Outstanding, beginning of year	1,018,896	561,242
Granted	332,509	556,961
Settled	(223,368)	(85,521)
Expired	(34,662)	(13,786)
Outstanding, end of year	1,093,375	1,018,896

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12. Unitholders' equity (continued):

The fair values of the unit options and incentive units, included in accounts payable and accrued liabilities, are as follows:

	December 31 2020	December 31 2019
Options	\$ 789	\$ 12,016
Incentive units	8,934	11,504
	\$ 9,723	\$ 23,520

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

	2020	2019
Options	\$ (11,227)	\$ 3,319
Incentive units	886	6,825
	\$ (10,341)	\$ 10,144

(c) 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 in a calendar year 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 method of payment is at the discretion of the trustees.

For the year ended December 31, 2020, the REIT declared distributions per Unit of \$0.92 (December 31, 2019 - \$1.38).

(d) Normal course issuer bid:

On December 10, 2019, the REIT received approval from the TSX for the renewal of its normal course issuer bid ("NCIB") which allowed the REIT to purchase for cancellation up to a maximum of 15,000,000 Units on the open market until December 16, 2020. During the years ended December 31, 2020 and 2019, the REIT did not purchase and cancel any Units.

13. Accumulated other comprehensive income:

Items that are or may be reclassified subsequently to net income (loss):

	Note	December 31, 2020			December 31 2019
		Cash flow hedges	Foreign operations	Total	Total
Opening balance, beginning of year		\$ (223)	\$ 246,721	\$ 246,498	\$ 371,824
Transfer of realized loss on cash flow hedges to net income (loss)		30	-	30	29
Unrealized loss on translation of U.S. denominated foreign operations		-	(71,227)	(71,227)	(108,675)
Net loss on hedges of net investments in foreign operations	8	-	(15,465)	(15,465)	(16,680)
		30	(86,692)	(86,662)	(125,326)
Closing balance, end of year		\$ (193)	\$ 160,029	\$ 159,836	\$ 246,498

H&R REAL ESTATE INVESTMENT TRUST

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14. Rentals from investment properties:

	2020	2019
Rental income	\$ 892,403	\$ 922,108
Revenue from services	198,286	222,535
Straight-lining of contractual rent	10,652	7,161
Rent amortization of tenant inducements	(2,661)	(2,354)
	\$ 1,098,680	\$ 1,149,450

Operating leases:

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

	2020	2019
Less than 1 year	\$ 669,662	\$ 666,425
Between 1 and 5 years	2,113,392	2,116,371
More than 5 years	3,524,791	3,477,225
	\$ 6,307,845	\$ 6,260,021

15. Finance costs:

	2020	2019
Finance cost - operations		
Contractual interest on mortgages payable	\$ 150,354	\$ 164,867
Contractual interest on debentures payable	41,379	47,312
Contractual interest on unsecured term loans	22,851	21,842
Bank interest and charges on lines of credit	16,303	13,951
Effective interest rate accretion	4,625	4,301
Exchangeable unit distributions	13,966	21,872
	249,478	274,145
Capitalized interest ⁽¹⁾	(20,609)	(17,649)
	228,869	256,496
Finance income	(33,399)	(15,036)
Fair value adjustment on financial instruments	(82,974)	19,483
	\$ 112,496	\$ 260,943

⁽¹⁾ The weighted average rate of borrowings for the capitalized interest is 3.60% (December 31, 2019 - 3.90%).

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16. Supplemental cash flow information:

The following is a summary of changes in other non-cash operating items:

	2020	2019
Accrued rents receivable	\$ (16,565)	\$ (12,700)
Prepaid expenses and sundry assets	(9,125)	(25,000)
Accounts receivable	(8,258)	1,041
Accounts payable and accrued liabilities	33,770	17,296
	\$ (178)	\$ (19,363)

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

	Note	2020	2019
Non-cash items:			
Non-cash adjustment to proceeds from issuance of Units		\$ 2,391	\$ 2,291
Mortgages receivable from the sale of investment properties		-	256,000
Non-cash assumption of mortgage payable on disposition of asset held for sale		(49,796)	-
Restricted cash assumption on disposition of asset held for sale		1,782	-
Transfer of investment property from equity accounted investments	3	15,665	-
Exchangeable units exchanged for Units		-	14,448
Other items:			
Change in accounts payable on lease liability and right-of-use asset	3	927	32,002
Change in accounts payable included in finance cost - operations		1,430	3,857
Capitalized interest on redevelopment	15	(3,912)	(5,349)
Capitalized interest on properties under development	15	(16,697)	(12,300)

17. Capital risk management:

The REIT's primary objectives when managing capital are:

- (a) to maximize Unit value through ongoing active management of the REIT's assets, acquisition of additional properties and the development and construction of projects; and
- (b) 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.

The REIT considers its capital to be:

	December 31 2020	December 31 2019
Debt	\$ 6,368,316	\$ 6,375,860
Exchangeable units	197,796	323,173
Unitholders' equity	6,071,391	7,043,917
	\$ 12,637,503	\$ 13,742,950

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17. Capital risk management (continued):

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%. As at December 31, 2020, this ratio was 47.7% (December 31, 2019 - 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 debt has various covenants calculated as defined within these agreements. The REIT monitors these covenants and was in compliance as at December 31, 2020 and December 31, 2019.

18. 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 REIT has three tenants which individually account for more than 5% of the rentals from investment properties of the REIT: Ovintiv Inc., Bell Canada and Hess Corporation. Each of these companies has a public debt rating that is rated with at least a BBB- Stable rating by a recognized rating agency.

The carrying amount of receivables represents the maximum credit exposure, therefore the REIT's exposure to credit risk on receivables is as follows:

		December 31	December 31
	Note	2020	2019
Mortgages receivable	6	\$ 425,486	\$ 555,030
Accounts receivable	6	19,618	11,360
		\$ 445,104	\$ 566,390

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18. Risk management (continued):

(b) Liquidity risk:

The REIT is subject to liquidity risk whereby the REIT may not be able to refinance or pay its debt obligations when they become due. Management took precautionary measures to further bolster the REIT's liquidity as a result of the severity of the pandemic's impact on economic conditions.

The REIT manages liquidity risk by:

- Ensuring appropriate unsecured term loans and lines of credit available are available. As at December 31, 2020, the consolidated amount available under its lines of credit was \$1,102,885 (note 8(d));
- Maintaining a large unencumbered asset pool. As at December 31, 2020, there were 100 unencumbered properties with a fair value of \$3,666,464; and
- Structuring its financing so as to stagger the maturities of its debt, thereby minimizing exposure to liquidity risk in any one year (note 8).

Management monitors the REIT's liquidity risk through review of financial covenants contained in bank credit facility agreements, debt agreements and compliance with the REIT's Declaration of Trust.

The REIT's obligations are as follows:

	Note	2021	Thereafter	Total
Debt ⁽¹⁾	8	\$ 1,401,314	\$ 4,986,496	\$ 6,387,810
Accounts payable and accrued liabilities ⁽²⁾	10	326,225	42,172	368,397
		\$ 1,727,539	\$ 5,028,668	\$ 6,756,207

(1) Amounts in the above table only include principal repayments.

(2) Excludes options payable.

(c) Market risk:

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

(i) Currency risk:

Foreign exchange risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. 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 denominated in U.S. dollars to act as a natural hedge. Additionally, the REIT has designated U.S. denominated debt of \$470,000 (2019 - U.S. \$640,500) consisting of the U.S. unsecured term loans and U.S. lines of credit (2019 - Series P Senior Debentures, U.S. unsecured term loans and U.S. lines of credit) as a hedge of its net investment in foreign operations of approximately U.S. \$1,650,000 (2019 - U.S. \$1,621,000).

A \$0.10 weakening of the U.S. dollar against the average Canadian dollar exchange rate of \$1.34 for the year ended December 31, 2020 (December 31, 2019 - \$1.33) as well as the Canadian dollar exchange rate as at December 31, 2020 of \$1.27 (December 31, 2019 - \$1.30) would have decreased other comprehensive income (loss) by approximately \$212,000 (December 31, 2019 - \$226,000) and decreased net income by approximately \$9,100 (December 31, 2019 - \$18,500). This analysis assumes that all other variables, in particular interest rates, remain constant (a \$0.10 strengthening of the U.S. dollar against the average Canadian dollar would have had the equal but opposite effect).

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Years ended December 31, 2020 and 2019

18. Risk management (continued):

(ii) *Interest rate risk:*

The REIT is exposed to interest rate risk on its borrowings. It minimizes this risk by obtaining long-term fixed interest rate debt. At December 31, 2020, the percentage of fixed rate debt to total debt was 92.0% (December 31, 2019 - 87.3%). Therefore, a change in interest rates at the reporting date would not have a material impact on net income as the majority of the REIT's borrowings are through fixed rate instruments.

As at December 31, 2020, lines of credit of \$487,818 and an unsecured term loan of \$22,929 are subject to variable interest rates. An increase in interest rates of 100 basis points for the year ended December 31, 2020 would have decreased net income by approximately \$5,100 (December 31, 2019 - \$8,200). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

As at December 31, 2020, there were no mortgages payable or debentures payable subject to variable interest rates.

(d) *Fair value measurement:*

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

The fair values of the REIT's accounts receivable, cash and cash equivalents 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 certain mortgages receivable, mortgages payable, senior debentures, unsecured term loans and lines of credit have been determined by discounting the cash flows of these financial obligations using market rates for debt of similar terms and credit risks.

(ii) *Fair value of assets and liabilities:*

Assets and liabilities measured at fair value in the consolidated 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:

- 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).

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18. Risk management (continued):

December 31, 2020	Note	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets measured at fair value						
Investment properties	3	\$ -	\$ -	\$ 11,149,130	\$ 11,149,130	\$ 11,149,130
Properties under development	3	-	-	449,849	449,849	449,849
Assets classified as held for sale	5	-	-	219,050	219,050	219,050
Mortgages receivable	6	-	-	240,716	240,716	240,716
Derivative instruments	6	-	3,194	-	3,194	3,194
Cash and cash equivalents	7	62,859	-	-	62,859	62,859
Assets for which fair values are disclosed						
Mortgages receivable	6	-	186,458	-	186,458	184,770
		62,859	189,652	12,058,745	12,311,256	12,309,568
Liabilities measured at fair value						
Exchangeable units	9	(197,796)	-	-	(197,796)	(197,796)
Derivative instruments	10	-	(42,289)	-	(42,289)	(42,289)
Liabilities for which fair values are disclosed						
Mortgages payable	8(a)	-	(3,793,966)	-	(3,793,966)	(3,623,652)
Debentures payable	8(b)	-	(1,651,492)	-	(1,651,492)	(1,568,817)
Unsecured term loans	8(c)	-	(688,733)	-	(688,733)	(688,029)
Lines of credit	8(d)	-	(488,319)	-	(488,319)	(487,818)
		(197,796)	(6,664,799)	-	(6,862,595)	(6,608,401)
		\$ (134,937)	\$ (6,475,147)	\$ 12,058,745	\$ 5,448,661	\$ 5,701,167

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Years ended December 31, 2020 and 2019

18. Risk management (continued):

December 31, 2019	Note	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets measured at fair value						
Investment properties	3	\$ -	\$ -	\$ 11,988,347	\$ 11,988,347	\$ 11,988,347
Properties under development	3	-	-	683,145	683,145	683,145
Assets classified as held for sale	5	-	-	135,673	135,673	135,673
Mortgages receivable	6	-	-	227,332	227,332	227,332
Derivative instruments	6	-	752	-	752	752
Cash and cash equivalents	7	48,640	-	-	48,640	48,640
Assets for which fair values are disclosed						
Mortgages receivable	6	-	327,761	-	327,761	327,698
		48,640	328,513	13,034,497	13,411,650	13,411,587
Liabilities measured at fair value						
Exchangeable units	9	(323,173)	-	-	(323,173)	(323,173)
Derivative instruments	10	-	(9,352)	-	(9,352)	(9,352)
Liabilities classified as held for sale	5	-	-	(49,416)	(49,416)	(49,416)
Liabilities for which fair values are disclosed						
Mortgages payable	8(a)	-	(3,725,176)	-	(3,725,176)	(3,630,858)
Debentures payable	8(b)	-	(1,291,301)	-	(1,291,301)	(1,257,731)
Unsecured term loans	8(c)	-	(693,924)	-	(693,924)	(692,229)
Lines of credit	8(d)	-	(796,994)	-	(796,994)	(795,042)
		(323,173)	(6,516,747)	(49,416)	(6,889,336)	(6,757,801)
		\$ (274,533)	\$ (6,188,234)	\$ 12,985,081	\$ 6,522,314	\$ 6,653,786

19. Compensation of key management personnel:

Key management personnel are those individuals who have the authority and responsibility for planning, directing and controlling the REIT's activities, directly or indirectly.

	2020	2019
Salaries and short-term employee benefits	\$ 6,359	\$ 6,696
Unit-based compensation	(9,518)	8,260
	\$ (3,159)	\$ 14,956

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20. Segmented disclosures:

The REIT has four reportable operating segments (Office, Retail, Industrial and Residential), in two geographical locations (Canada and the United States). The operating segments derive their revenue primarily from rental income from leases. The 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”) of the REIT. The CEO measures and evaluates the performance of the REIT based on property operating income on a proportionately consolidated basis for the REIT’s equity accounted investments. The accounting policies of the segments presented here are consistent with the REIT’s accounting policies as described in note 2.

(i) Operating segments:

Real estate assets by reportable segment as at December 31, 2020 and December 31, 2019 are as follows:

December 31, 2020	Office	Retail	Industrial	Residential	Total
Number of investment properties	33	327	87	23	470
Real estate assets:					
Investment properties	\$ 5,334,288	\$ 3,934,305	\$ 1,225,366	\$ 2,744,695	\$ 13,238,654
Properties under development	7,984	16,822	126,095	506,163	657,064
	5,342,272	3,951,127	1,351,461	3,250,858	13,895,718
Less: assets classified as held for sale	(209,550)	-	(9,500)	-	(219,050)
Less: REIT’s proportionate share of real estate assets relating to equity accounted investments	-	(856,807)	(35,231)	(1,174,558)	(2,066,596)
Less: REIT’s proportionate share of assets classified as held for sale relating to equity accounted investments	-	(11,093)	-	-	(11,093)
	\$ 5,132,722	\$ 3,083,227	\$ 1,306,730	\$ 2,076,300	\$ 11,598,979

December 31, 2019	Office	Retail	Industrial	Residential	Total
Number of investment properties	33	311	87	24	455
Real estate assets:					
Investment properties	\$ 5,988,561	\$ 4,169,339	\$ 1,057,242	\$ 2,841,802	\$ 14,056,944
Properties under development	6,970	22,810	104,991	694,612	829,383
	5,995,531	4,192,149	1,162,233	3,536,414	14,886,327
Less: assets classified as held for sale	-	-	(17,100)	(116,805)	(133,905)
Less: REIT’s proportionate share of real estate assets relating to equity accounted investments	-	(868,186)	(36,108)	(1,163,764)	(2,068,058)
Less: REIT’s proportionate share of assets classified as held for sale relating to equity accounted investments	-	(12,872)	-	-	(12,872)
	\$ 5,995,531	\$ 3,311,091	\$ 1,109,025	\$ 2,255,845	\$ 12,671,492

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20. Segmented disclosures (continued):

Property operating income by reportable segment for the years ended December 31, 2020 and December 31, 2019 is as follows:

December 31, 2020	Office	Retail	Industrial	Residential	Sub-total	Less: Equity Accounted Investments	Total
Rentals from investment properties	\$ 535,361	\$ 398,579	\$ 84,400	\$ 200,142	\$ 1,218,482	\$ (119,802)	\$ 1,098,680
Property operating costs	(176,400)	(180,532)	(21,912)	(91,274)	(470,118)	35,104	(435,014)
Property operating income	\$ 358,961	\$ 218,047	\$ 62,488	\$ 108,868	\$ 748,364	\$ (84,698)	\$ 663,666

December 31, 2019	Office	Retail	Industrial	Residential	Sub-total	Less: Equity Accounted Investments	Total
Rentals from investment properties	\$ 571,609	\$ 406,218	\$ 86,046	\$ 209,610	\$ 1,273,483	\$ (124,033)	\$ 1,149,450
Property operating costs	(193,886)	(155,065)	(24,661)	(95,040)	(468,652)	30,177	(438,475)
Property operating income	\$ 377,723	\$ 251,153	\$ 61,385	\$ 114,570	\$ 804,831	\$ (93,856)	\$ 710,975

(ii) Geographical locations:

The REIT operates in Canada and the United States.

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

	December 31 2020	December 31 2019
Real estate assets:		
Canada	\$ 7,599,011	\$ 8,546,186
United States	6,296,707	6,340,141
	13,895,718	14,886,327
Less: assets classified as held for sale	(219,050)	(133,905)
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	(2,066,596)	(2,068,058)
Less: REIT's proportionate share of assets classified as held for sale relating to equity accounted investments	(11,093)	(12,872)
	\$ 11,598,979	\$ 12,671,492

	2020	2019
Rentals from investment properties:		
Canada	\$ 798,614	\$ 845,371
United States	419,868	428,112
	1,218,482	1,273,483
Less: REIT's proportionate share of rentals relating to equity accounted investments	(119,802)	(124,033)
	\$ 1,098,680	\$ 1,149,450

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21. Income tax expense (recovery):

	2020	2019
Income tax computed at the Canadian statutory rate of nil applicable to the REIT for 2020 and 2019	\$ -	\$ -
Current U.S. income taxes	259	113
Deferred income taxes (recoveries) applicable to U.S. Holdco	(54,000)	35,267
Income tax expense (recovery) in the determination of net income (loss)	\$ (53,741)	\$ 35,380

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, such as the REIT.

The REIT has certain subsidiaries in the United States that are subject to tax on their taxable income at a combined federal and state tax rate of approximately 23.5% (2019 - 23.6%). 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 2020	December 31 2019
Deferred tax assets:		
Net operating losses	\$ 73,346	\$ 24,947
Accounts payable and accrued liabilities	691	880
Other assets	2,779	980
	76,816	26,807
Deferred tax liabilities:		
Investment properties	302,993	309,730
Equity accounted investments	122,578	126,458
	425,571	436,188
Deferred tax liability	\$ (348,755)	\$ (409,381)

The change in deferred tax liability is the result of deferred income taxes (recoveries) of (\$54,000) (2019 - \$35,267) and a foreign currency translation gain of \$6,626 (2019 - \$18,100) recognized in other comprehensive loss.

As at December 31, 2020, U.S. Holdco had accumulated net operating losses available for carryforward for U.S. income tax purposes of \$312,579 (December 31, 2019 - \$105,744). During the year ended December 31, 2020, the Internal Revenue Service released certain income tax regulations. Accordingly, the REIT recognized a deferred tax recovery of \$46,500 pertaining to net operating losses. Certain of the net operating losses will expire between 2031 and 2032. Net operating losses arising after December 31, 2017 do not generally expire under current tax legislation. The deductible temporary differences do not generally expire under current tax legislation.

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22. 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, 2020, the REIT has outstanding letters of credit totalling \$31,797 (December 31, 2019 - \$36,881), including \$12,470 (December 31, 2019 - \$16,575) which has been pledged as security for certain mortgages payable. The letters of credit are secured by certain investment properties.
- (b) The REIT provides guarantees on behalf of third parties, including co-owners. As at December 31, 2020, the REIT issued guarantees amounting to \$290,148 (December 31, 2019 - \$199,009), which expire between 2021 and 2027 (December 31, 2019 - expire between 2021 and 2027), relating to the co-owner's share of mortgage liability.

The REIT had previously guaranteed certain debt assumed by purchasers in connection with past dispositions of properties. At December 31, 2020, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is nil (December 31, 2019 - \$41,259). There were no defaults by the primary obligor for debts on which the REIT had provided its guarantees, and as a result, no contingent loss on these guarantees had been recognized in these consolidated 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) The REIT is obligated, under certain contract terms, to construct and develop investment properties.
- (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 material adverse effect on the consolidated financial statements.

23. Subsidiaries:

Name of Entity	Place of Business	Ownership interest	
		December 31 2020	December 31 2019
Bow Centre Street Limited Partnership	Canada	100%	100%
H&R Portfolio Limited Partnership	Canada	100%	100%
H&R REIT Management Services Limited Partnership	Canada	100%	100%
H&R REIT (U.S.) Holdings Inc.	United States	100%	100%
Primaris Management Inc.	Canada	100%	100%
PRR Trust	Canada	100%	100%

24. Subsequent events:

- (a) In January 2021, the REIT sold one U.S. office property which was classified as held for sale as at December 31, 2020, for gross proceeds of U.S. \$165,000 and repaid the mortgage payable of approximately U.S. \$13,000 bearing interest at 5.68% per annum.
- (b) In January 2021, the REIT acquired 12.4 acres of vacant land in Jersey City, NJ for a purchase price of U.S. \$162,000. The REIT's outstanding mortgage receivable of approximately U.S. \$146,200 secured by this land and bearing interest at 10% per annum was applied toward the purchase price.

Corporate Information

H&R REIT Board of Trustees

Thomas J. Hofstedter ⁽¹⁾, President and Chief Executive Officer, H&R REIT
Alex Avery ⁽¹⁾, Executive Vice-President, Asset Management & Strategic Initiatives, H&R REIT
Robert Dickson ^(2,3), Strategic financial consultant, marketing communications industry
Laurence A. Lebovic ⁽¹⁾, Chief Executive Officer, Runnymede Development Corporation Ltd.
Ronald C. Rutman ^(1,2,3), Partner, Zeifman & Company, Chartered Accountants
Juli Morrow, Partner, Goodmans LLP
Brenna Haysom ⁽³⁾, Chief Executive Officer, Rally Labs
Marvin Rubner ⁽²⁾, Manager & Founder, YAD Investments Limited

(1) Investment Committee

(2) Audit Committee

(3) Compensation, Governance and Nominating Committee

Executive Officers

Thomas J. Hofstedter, President and Chief Executive Officer
Larry Froom, Chief Financial Officer
Alex Avery, Executive Vice-President, Asset Management & Strategic Initiatives
Robyn Kestenberg, Executive Vice-President, Corporate Development
Philippe Lapointe, Chief Operating Officer (Lantower Residential)
Pat Sullivan, Chief Operating Officer (Primaris)
Cheryl Fried, Executive Vice-President, Finance (H&R REIT)
Brenda Huggins, Senior Vice-President, Human Resources (Primaris)
Colleen Grahn, Executive Vice-President, Property Management (Lantower Residential)

Auditors: KPMG LLP

Legal Counsel: Blake, Cassels & Graydon LLP

Taxability of Distributions:

18.4% of 2020 distributions will be designated as taxable capital gains. For taxable Canadian unitholders, 18.4% (2019 - 22.3%) of the distributions will not be subject to current income taxes.

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

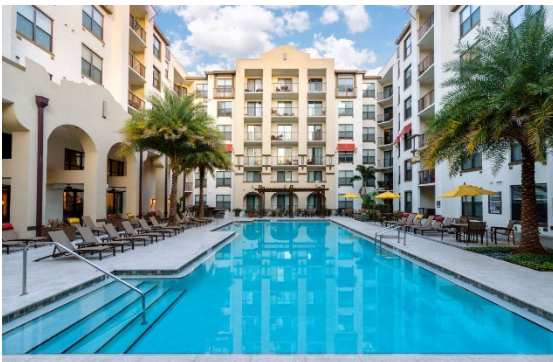
Stock Exchange Listing: Units and debentures of H&R are listed on the Toronto Stock Exchange under the trading symbols HR.UN.

Registrar and Transfer Agent: AST Trust Company (Canada), P.O. Box 4229, Station A, Toronto, Ontario, Canada, M5W 0G1, Telephone: 1-800-387-0825 (or for callers outside North America 416-682-3860), Fax: 1-888-488-1416, E-mail: inquiries@canstockta.com, Website: www.canstockta.com.

Contact Information: Investors, investment analysts and others seeking financial information should go to our website at www.hr-reit.com, or e-mail info@hr-reit.com, or call 416-635-7520 and ask for Larry Froom, Chief Financial Officer, 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



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