



# H&R Real Estate Investment Trust

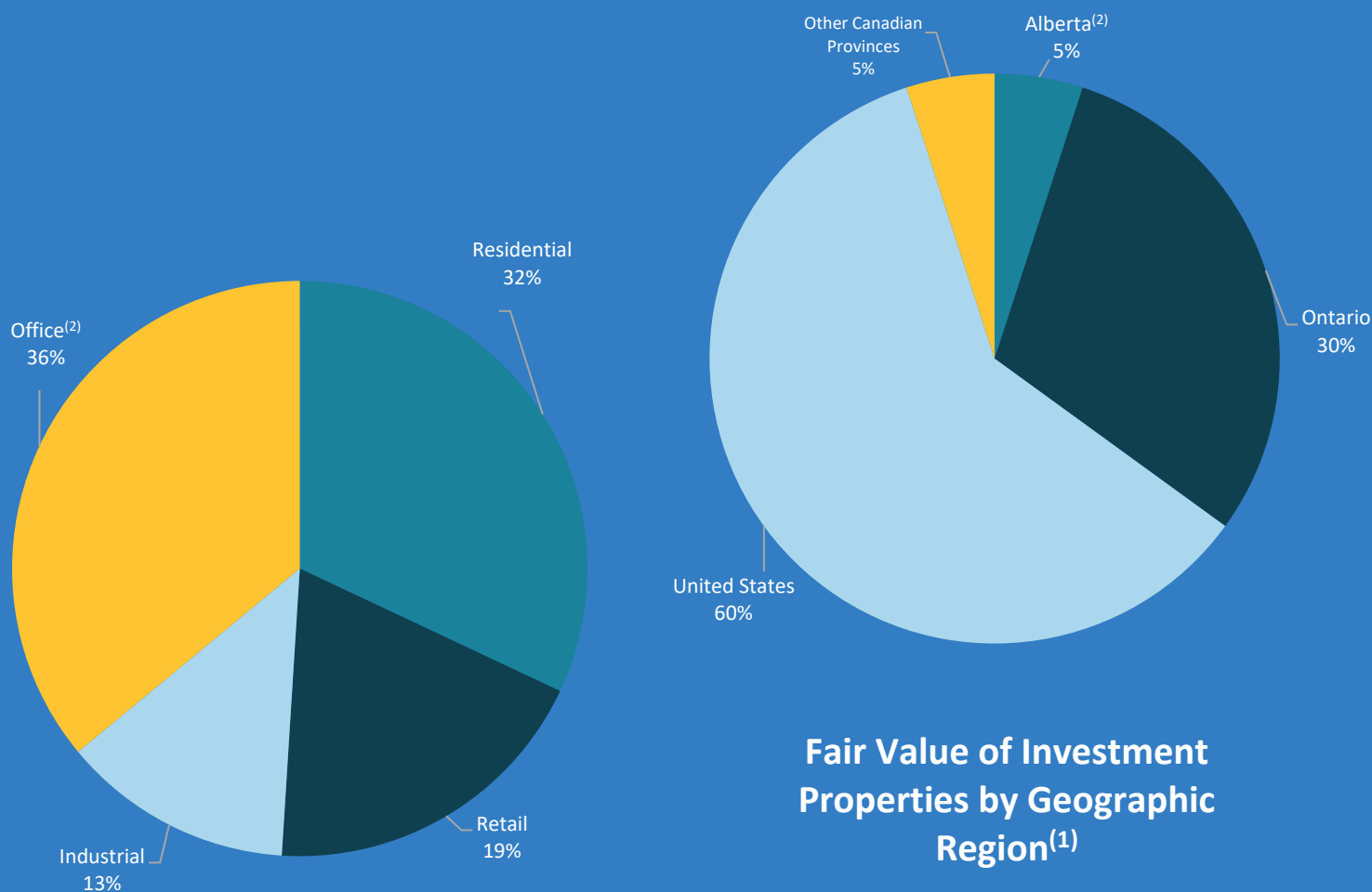
**2021 ANNUAL REPORT**

Lantower Westshore  
Tampa, FL

# H&R REIT PROFILE

H&R REIT is one of Canada's largest real estate investment trusts with total assets of approximately \$10.5 billion as at December 31, 2021. H&R REIT has ownership interests in a North American portfolio comprised of high-quality office, industrial, residential and retail properties comprising over 29.5 million square feet. H&R is currently undergoing a five-year, strategic repositioning to transform into a simplified, growth-oriented company focusing on residential and industrial properties to surface significant value for unitholders.

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



**Fair Value of Investment Properties by Asset Type<sup>(1)</sup>**

**Fair Value of Investment Properties by Geographic Region<sup>(1)</sup>**

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

**To be a leading owner, operator and developer of residential and industrial properties, creating value through redevelopment and greenfield development in prime locations within Toronto, Montreal, Vancouver, and high growth U.S. sunbelt and gateway cities.**

“Equipped with a strong balance sheet, significant liquidity and enhanced portfolio concentration to large primary markets with strong population and economic growth, we are very well positioned to take advantage of opportunities in 2022.”

Thomas J. Hofstedter,  
*President & Chief Executive Officer*

February 14, 2022

## Fellow Unitholders,

2021 truly was a transformational year for the REIT. Despite the enduring global pandemic, our teams accomplished many substantial milestones. Through transactions exceeding \$4 billion, we successfully enhanced our geographical exposure, asset mix, and tenant diversification, while also lowering leverage and increasing liquidity.

### Transformational Strategic Repositioning Plan

In the fall, H&R announced its transformational Strategic Repositioning Plan to create a simplified, growth-oriented business focusing on residential and industrial properties to surface significant value for our unitholders. Our target is to be a leading owner, operator and developer of residential and industrial properties, creating value through redevelopment and greenfield development in prime locations within Toronto, Montreal, Vancouver, and high growth U.S. sunbelt and gateway cities.

This announced transformational Strategic Repositioning Plan encompasses four key initiatives:

Our first initiative was the tax-free spin-off of certain of H&R's retail assets, including all of H&R's enclosed malls into Primaris REIT, a new, completely independent, stand-alone, publicly-traded entity. The spin-off simplifies and enhances H&R's asset mix, and enables investors to independently value Primaris' full-service, internal national management platform and properties.

Our second initiative will be the exit of our remaining retail assets, including our grocery-anchored and essential service retail properties, and our interest in ECHO Realty L.P. Our \$596 million grocery-anchored and essential service portfolio is comprised of high-quality properties anchored by strong, covenanted tenants such as Lowe's, Metro, Sobeys and Walmart. These 55-properties, comprising 2.7 million square feet are 98.5% leased and primarily located in Ontario.

Our \$482 million investment in ECHO Realty L.P. is comprised of grocery-anchored shopping centres and single tenant supermarkets primarily leased to Giant Eagle, the largest supermarket chain in Ohio and Pennsylvania, and is 95.8% leased.

Our third initiative is the strategic disposition over time of all office properties that do not offer significant near-term redevelopment potential. There are currently 16 unique, high-quality office properties, located in central business districts in major cities across the United States and Canada, that meet this criteria. These properties are

99.5% occupied with a weighted average remaining lease term of 9.3 years, leased to strong, investment-grade tenants.

The development team has been working diligently on the balance of the office portfolio to advance them through the city planning process. We expect these 11 properties to yield 5,300 residential units and 390,000 square feet of industrial use upon rezoning approval.

Last summer we commenced the execution of our strategy to exit the office market with the successful sale of the Bow, a two-million square foot office building in Calgary, Alberta, and the sale of the Bell Office Campus in Mississauga, Ontario. We are very confident in our ability to sell the remaining office portfolio at attractive pricing over time.

The fourth leg of our strategy is to grow our residential and industrial portfolio through the redevelopment in prime locations primarily within the high growth U.S. sunbelt and gateway cities. We began deploying capital to residential in 2015, and to date have allocated over \$2.3 billion, achieving double digit returns. Our residential platform, Lantower, has an exciting number of sunbelt-focused developments with shovels going into the ground in March 2022.

### Environmental, Social and Governance

We continue to implement programs to reduce carbon emissions, energy use, water use and waste. H&R is expanding its reporting boundary to report utility consumption and emissions wherever we have control over utility use and/or able to access utility data. We report to and utilize the Global Reporting Initiative (GRI) reference claim, the Sustainability Accounting Standards Board (SASB), and the Carbon Disclosure Project (CDP).

Our property management teams actively work towards identifying opportunities to implement efficiencies and sustainable practices within our portfolio, and in turn increase the number of properties with green building certifications, such as LEED and BOMA BEST. Our Lantower residential platform has proudly committed to have all developments certified by the National Green Building Standard, a leading U.S. residential designation.

The team successfully reduced our like-for-like greenhouse gas market-based emissions, electricity use and water use by 10%, 9%, and 9.6%, respectively, in 2020 compared to 2019.

We encourage our employees to participate in community charitable initiatives and programs. H&R provides professional and personal advancement opportunities, allowing for movement and growth within the organization. This enables our team members to acquire new skills and achieve personal development goals.

We have always valued diversity, recognizing the strengths and insights that are realized from a blend of cultures, wisdom and experiences. We are proud to report that 33% of the Board of Trustees are women. In addition to board diversity, H&R is honoured to have been recognized in 2021 as one of the premier organizations in Canada by the Globe & Mail's Women Lead Here initiative.

### Capital Allocation

2021 was a monumental year for capital allocation, where the team made huge strides forward in repositioning the REIT. To date, we have significantly transformed our portfolio composition, geographical exposure, tenant mix, growth profile, and balance sheet. These steps are moving us closer to our goal of streamlining and simplifying our portfolio and the REIT.

In 2022, we plan to continue allocating capital diligently, starting with utilizing our NCIB, having bought back and cancelled to date \$55 million of H&R's outstanding units, or 4.2 million units at a weighted average cost of \$13.00. This is a 27% discount to the REIT's Net Asset Value per Unit<sup>(1)</sup> of \$17.70. We plan to continue to buy back units if the significant discount persists.

Respectfully,



Ronald C. Rutman  
Chair

### We are Positioned for Change

Equipped with a strong balance sheet, significant liquidity and enhanced portfolio concentration to large primary markets with strong population and economic growth, we are very well positioned to take advantage of opportunities in 2022.

Management and the board remain fully committed to the Strategic Repositioning Plan and are actively evaluating opportunities to increase unitholder value and address the significant discount at which our units trade to the REIT's Net Asset Value per Unit. Management, members of the Board and their families collectively own more than \$300 million, or approximately 8% of equity in H&R REIT, providing strong alignment with unitholders in pursuit of the REIT's objectives.

We are very proud of what we have accomplished in 2021, and we thank our loyal and hard-working employees for their tireless dedication, flexibility and adaptability through this considerable period of change at H&R. 2021 demonstrated just how critical our team members are to all that we do.



Thomas J. Hofstedter  
President & Chief Executive Officer

<sup>(1)</sup> Net Asset Value per Unit is a non-GAAP ratio that does not have a meaning recognized or standardized under International Financial Reporting Standards or Canadian Generally Accepted Accounting Principles ("GAAP") and should not be construed as an alternative to financial measures calculated in accordance with GAAP. Further, H&R's method of calculating this supplemental non-GAAP ratio may differ from the methods of other real estate investment trusts or other issuers, and accordingly may not be comparable. For information on the most directly comparable GAAP measure, composition of the measure, a description of how the REIT uses this measure and an explanation of how this measure provides useful information to investors, refer to the "Non-GAAP Measures" section of the REIT's management discussion and analysis as at and for the year ended December 31, 2021, available at [www.hr-reit.com](http://www.hr-reit.com) and on the REIT's profile on SEDAR at [www.sedar.com](http://www.sedar.com), which is incorporated by reference herein.

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

**For the year ended December 31, 2021**

Dated: February 14, 2022

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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, 2021 includes material information up to February 14, 2022. Financial data for the years ended December 31, 2021 and 2020 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 audited consolidated financial statements of the REIT and related notes for the year ended December 31, 2021 ("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.

On December 31, 2021, the REIT completed a spin off, on a tax-free basis, of 27 properties including all of the REIT's enclosed shopping centres (the "Primaris Spin-Off") to a new publicly-traded REIT ("Primaris REIT"). The Primaris Spin-Off was implemented by way of a Plan of Arrangement (the "Arrangement"), which was approved by unitholders of the REIT on December 13, 2021. This is further discussed in the "Significant 2021 Highlights" section of this MD&A.

Pursuant to the Arrangement, each holder of Units received one Primaris REIT unit for every four Units held (after giving effect to a 4:1 consolidation of Primaris REIT units pursuant to the Arrangement), such that REIT unitholders held Primaris REIT units in addition to their Units as at December 31, 2021.

The financial results for the 27 properties contributed by H&R to Primaris REIT have been included for the entire 2021 calendar year in the REIT's consolidated statements of comprehensive income (loss) for the year ended December 31, 2021. However, as the Primaris Spin-Off was completed on December 31, 2021, these properties have been excluded from the REIT's consolidated statements of financial position as at December 31, 2021 as well as any operational statistics for 2021.

In the preparation of the REIT's Financial Statements and MD&A, the REIT has incorporated the ongoing 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 mortgage 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, targets, 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 "Significant 2021 Highlights" including with respect to H&R's future plans and targets, including the REIT's strategic repositioning, the expected benefits from the REIT's strategic repositioning, the REIT's funding of its strategic repositioning, the REIT's intent to create value through redevelopment and greenfield development, ongoing management fees from the Bow and Bell Office Campus, the ability of H&R to capture potential upside in the Calgary office market, significant development projects, H&R's expectation with respect to the future developments and 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 occupancy, the timing of lease-up and the expected total cost from development properties, the impact of the REIT's commitment to sustainability on its portfolio, the timing of the sale of The Pearl, the impact of the COVID-19 virus on the REIT and the REIT's tenants, the REIT's bad debt expense and expected credit loss, the value of assets and liabilities held for sale, the REIT's expected payout ratio as a % of FFO, capitalization rates and cash flow models used to estimate fair values, expectations regarding future operating fundamentals, management's expectations regarding future distributions by the REIT, management's belief that H&R has sufficient funds and liquidity for future commitments and to withstand the remainder of the pandemic, and management's expectation to be able to meet all of the REIT's ongoing obligations. 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 gradually recovering as a result of the COVID-19 pandemic, the extent and duration of which is unknown; debt markets continue to provide access to capital at a reasonable cost, notwithstanding the ongoing economic downturn; and the assumptions made in connection with the anticipated benefits of the strategic repositioning plan. 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; development risks; residential rental business risk; capital expenditures risk; currency risk; liquidity risk; financing credit risk; cyber security risk; environmental and climate change risk; general uninsured losses; co-ownership interest in properties; joint arrangement risks; dependence on key personnel; potential acquisition, investment and disposition opportunities and joint venture arrangements; potential undisclosed liabilities associated with acquisitions; competition for real property investments; 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 14, 2022 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 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 Measures and non-GAAP ratios should be construed as an alternative to financial measures calculated in accordance with GAAP. Furthermore, these supplemental Non-GAAP Measures and non-GAAP ratios are not standardized under IFRS and the REIT's method of calculating these supplemental Non-GAAP Measures and non-GAAP ratios 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 the financial position and its share of net income (loss) from H&R's 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.

### (b) Property operating income (cash basis) and Same-Asset property operating income (cash basis)

Property operating income (cash basis) is a non-GAAP measure used by H&R to assess performance for properties owned. It adjusts property operating income to exclude two non-cash items:

- (i) 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.
- (ii) 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.

Same-Asset property operating income (cash basis) is a Non-GAAP Measure used by H&R to assess period-over-period performance for properties owned and operated since January 1, 2020. 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 as well as excludes the two non-cash items noted above.

Same-Asset property operating income (cash basis) further excludes:

- Acquisitions, business combinations, dispositions, spin-offs, 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, 2021 (collectively, “Transactions”).

Management believes property operating income (cash basis) is useful for investors as it adjusts property operating income for non-cash items which allows investors to better understand the cash-on-cash performance of a property. Management believes that Same-Asset property operating income (cash basis) 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, both measures are 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 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 January 2022 guidance REALPAC Funds Real Property Association of Canada (REALPAC) *White Paper on Funds From Operations and Adjusted Funds From Operations for IFRS* except for “the Bow non-cash rental and accretion adjustment”. The Bow was legally disposed of in October 2021.

- The Bow non-cash rental adjustment is a result of the Bow sale transaction not meeting the criteria of a transfer of control under IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”) as the REIT has an option to repurchase 100% of the Bow property. The REIT is legally only entitled to 15% of the lease revenue from the Ovintiv Inc. lease for the Bow however, under IFRS 15, recognizes 100% of the lease revenue in the REIT’s Financial Statements.
- The Bow non-cash accretion adjustment is a result of the sale proceeds received by the REIT recorded as deferred revenue and amortized over the remaining term of the lease, consisting of principal and interest in the REIT’s Financial Statements.

Therefore, the non-cash components of 85% of lease revenue and the interest accretion finance expense have both been adjusted in calculating FFO as the Bow non-cash rental and accretion adjustment. 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, leasing expenses and tenant inducements. 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 expenditures, leasing expenses and tenant inducements 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) Debt to Adjusted EBITDA at the REIT’s proportionate share**

Debt to Adjusted EBITDA at the REIT’s proportionate share is a non-GAAP ratio used to evaluate financial leverage. Debt includes mortgages, debentures, unsecured term loans and lines of credit payable to lenders. Adjusted earnings before, interest, taxes, depreciation and amortization (“Adjusted EBITDA”) is calculated by taking the sum of property operating income (excluding straight-lining of contractual rent, IFRIC 21, and the Bow non-cash rental adjustment; finance income and subtracting trust expenses (excluding the fair value adjustment to unit-based compensation) for the year. The Bow non-cash rent is due to the REIT recognizing 100% of the lease revenue from the Ovintiv lease in the REIT’s Financial Statements in accordance with IFRS 15, however the REIT is only legally entitled to 15% of the lease revenue. Adjusted EBITDA is used as an alternative to net income (loss) because it excludes major non-cash items. Management uses this ratio and believes it is useful for investors as it is an operational measure used to

evaluate the length of time it would take the REIT to repay its debt based on its operating performance. Debt to Adjusted EBITDA at the REIT's proportionate share is presented in the "Liabilities and Unitholders' Equity" section 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 ratio. Debt includes mortgages, debentures, unsecured term loans and lines of credit payable to lenders. Total assets has been adjusted to exclude the Bow, which the REIT legally disposed of in October 2021. The transaction did not meet the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of the Bow property for \$737.0 million in 2038 or earlier under certain circumstances. As a result, the REIT continues to recognize the income producing property in its consolidated statement of financial position, and the fair value of the Bow will be adjusted over the remaining life of the Ovintiv Inc. lease, bringing the value of the real estate asset to nil by the lease maturity.

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 ratios 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 ratio 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. See the "Unitholders' Equity per Unit and NAV per Unit" section of this MD&A for a calculation of NAV per Unit and a reconciliation of NAV per Unit to Unitholders' equity.

## 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 and the development and construction of projects.

H&R's current strategy to accomplish this objective is to actively manage the portfolio of high-quality investment properties in Canada and the United States leased by creditworthy tenants. On October 27, 2021, H&R announced its transformational strategic repositioning plan to create a simplified, growth-oriented business focused on residential and industrial properties in order to surface significant value for unitholders. H&R's target is to be a leading owner, operator and developer of residential and industrial properties, creating value through redevelopment and greenfield development in prime locations within Toronto, Montreal, Vancouver, and high growth U.S. sunbelt and gateway cities.

H&R mitigates risk through 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, 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 holds a portfolio of grocery-anchored and single tenant properties throughout Canada as well as 16 automotive-tenanted retail properties and one multi-tenant retail property in the United States. In addition, the Retail segment also holds a 33.7% 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 Canada's largest REITs, 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 COVID-19 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 second annual Sustainability Report in the Summer of 2021, highlighting Environmental, Social and Governance ("ESG") initiatives and accomplishments for the 2020 calendar year. H&R's second annual Sustainability Report outlines the REIT's ESG framework, in a consistent and efficient manner, and 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 within the REIT industry, 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;
- Since 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 within the REIT industry, ensuring transparency;
- H&R has reported to the Carbon Disclosure Project ("CDP") since 2016, reflecting 2015 performance onwards. In 2019, H&R scored better than all but one of 11 Canadian REITs (2020 CDP Reporting);
- H&R's like-for-like Greenhouse Gas ("GHG") market-based emissions decreased by over 10% in 2020 compared to 2019; equivalent to taking 2,093 passenger vehicles off the road, according to the United States Environmental Protection Agency<sup>(1)</sup>;
- H&R's like-for-like electricity use decreased by 9% in 2020 compared to 2019; this reduction is equivalent to the electricity use of 2,920 single-family homes in Ontario, according to the Ontario Energy Board<sup>(2)</sup>;
- H&R's like-for-like water use decreased by 9.6% in 2020 compared to 2019; equivalent to the annual household water use of 1,398 people, according to the U.S. Geological Survey<sup>(3)</sup>;
- Although it is difficult to accurately report the portion of savings resulting from resource reduction initiatives versus those resulting from reduced number of occupants in office and retail properties during the pandemic in 2020, the REIT is confident that as operations and occupancy stabilize the efficiency improvements made will be reflected in the energy and utility performance in future years;
- Green building certifications, such as LEED and BOMA BEST, provide third-party validation of property management, environmental programs and development practices within building portfolios. As of December 31, 2020, more than 7.84 million square feet (net rentable area, percentage ownership) of H&R's portfolio was LEED and/or BOMA BEST certified; 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 action and monitoring.

<sup>(1)</sup> Greenhouse Gas Emissions from a Typical Passenger Vehicle (United States Environmental Protection Agency, 2018).

<sup>(2)</sup> OEB Report: Defining Ontario's Typical Electricity Customer (Ontario Energy Board, 2018).

<sup>(3)</sup> How much water do I use at home each day? (U.S. Geological Survey).

#### Social

- As of December 31, 2021, 45% of H&R's Tier 1 and 2 Executives and 50% of H&R's Tier 3 Executives are women. Overall, 37% of H&R's workforce are women. As well, 33% of the current members of the REIT's Board of Trustees (the "Board") are women, achieving the 30% Club Canada's aim for better gender balance at the board level as well as exceeding H&R's target of 25% women on the Board;
- H&R is proud to have been recognized again by "Women Lead Here" highlighting the emphasis H&R places in diversity and inclusion in 2020 and 2021;
- H&R's corporate and on-site staff participate in employee and community charity initiatives and programs;
- Employee and professional advancement is encouraged with first consideration given to existing staff. This allows movement and growth within the organization, thus enabling our employees to acquire new skills and achieve personal development;
- H&R offers professional fee reimbursement 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; and
- Use of a written diversity policy.

#### 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. In accordance with this policy, two trustees resigned in 2021, and four new trustees were elected, leading to significant Board refreshment;
- Use of an Independent Board Chairperson;
- Majority independent Board, with 78% of the Board being fully independent;
- Use of a "Say on Pay" vote and independent compensation consultants retained by the Board's Compensation, Governance and Nominating Committee;
- Use of a minimum unit ownership requirement for Trustees and senior management; and
- Use of a clawback policy applicable to all incentive compensation.

The REIT looks forward to sharing its third annual Sustainability Report this Summer, which will highlight for 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. The contents of the REIT's website, including the REIT's Sustainability Policy and Sustainability Report, are expressly not incorporated by reference into, and do not form part of, this MD&A.

## SECTION II

## FINANCIAL HIGHLIGHTS

(in thousands except for per Unit amounts)	December 31, 2021	December 31, 2020	December 31, 2019
Total assets	<b>\$10,501,141</b>	\$13,355,444	\$14,483,342
Debt to total assets at the REIT's proportionate share <sup>(1)(2)</sup>	<b>46.6%</b>	51.1%	47.7%
Unitholders' equity	<b>4,773,833</b>	6,071,391	7,043,917
Units outstanding (in thousands of Units)	<b>288,440</b>	286,863	286,690
Unitholders' equity per Unit	<b>\$16.55</b>	\$21.16	\$24.57
NAV per Unit <sup>(2)(3)</sup>	<b>\$17.70</b>	\$21.93	\$25.79

(in thousands except for per Unit amounts)	Three months ended December 31			Year ended December 31		
	2021	2020	% Change	2021	2020	% Change
Rentals from investment properties	<b>\$265,794</b>	\$277,509	(4.2%)	<b>\$1,065,380</b>	\$1,098,680	(3.0%)
Property operating income	<b>169,841</b>	183,616	(7.5%)	<b>661,582</b>	663,666	(0.3%)
Same-Asset property operating income (cash basis) <sup>(4)</sup>	<b>140,618</b>	131,216	7.2%	<b>527,745</b>	556,982	(5.2%)
Net income (loss) from equity accounted investments	<b>89,298</b>	(44,697)	299.8%	<b>125,649</b>	(16,986)	839.7%
Fair value adjustment on real estate assets	<b>(13,005)</b>	69,960	118.6%	<b>12,984</b>	(1,195,958)	101.1%
Net income (loss)	<b>208,195</b>	111,644	86.5%	<b>597,907</b>	(624,559)	195.7%
FFO <sup>(4)</sup>	<b>104,572</b>	127,398	(17.9%)	<b>461,365</b>	503,096	(8.3%)
AFFO <sup>(4)</sup>	<b>76,227</b>	67,280	13.3%	<b>365,825</b>	383,811	(4.7%)
Weighted average number of Units and exchangeable units for FFO	<b>301,779</b>	301,746	0.0%	<b>301,772</b>	301,687	0.0%
FFO per basic Unit <sup>(2)</sup>	<b>\$0.35</b>	\$0.42	(16.7%)	<b>\$1.53</b>	\$1.67	(8.4%)
AFFO per basic Unit <sup>(2)</sup>	<b>\$0.25</b>	\$0.22	13.6%	<b>\$1.21</b>	\$1.27	(4.7%)
Cash Distributions per Unit <sup>(5)</sup>	<b>\$0.27</b>	\$0.17	58.8%	<b>\$0.79</b>	\$0.92	(14.1%)
Payout ratio as a % of FFO <sup>(2)(5)</sup>	<b>77.1%</b>	40.5%	36.6%	<b>51.6%</b>	55.1%	(3.5%)
Payout ratio as a % of AFFO <sup>(2)(5)</sup>	<b>108.0%</b>	77.3%	30.7%	<b>65.3%</b>	72.4%	(7.1%)

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

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

(3) Refer to page 27 for a detailed calculation of NAV per Unit.

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

(5) Distributions for the three months and year ended December 31, 2021, include the special cash distribution of \$0.10 per Unit declared on November 15, 2021, payable to all unitholders on record as at December 31, 2021. This distribution was paid on January 12, 2022 and has been included in the calculations of Payout ratio as a % of FFO and AFFO.

Refer to the Basis of Presentation section of this MD&A for further information on how the Primaris Spin-Off has been disclosed in the REIT's MD&A.

Net income (loss) is reconciled to FFO and AFFO on page 38 of this MD&A and NAV per Unit is reconciled to Unitholders' Equity per Unit on page 27 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. The 27 retail properties contributed by H&R to Primaris REIT as well as the Bow have not been included in the 2021 statistics and the 2020 statistics have not been re-stated to exclude these properties.

<b>OPERATIONS</b>		Office	Retail	Industrial	Residential	Total
<i>Occupancy as at December 31</i>	<b>2021</b>	<b>99.2%</b>	<b>93.8%</b>	<b>97.6%</b>	<b>95.2%</b>	<b>96.6%</b>
	2020	99.6%	90.3%	97.5%	88.1%	94.0%
<i>Occupancy – Same-Asset as at December 31<sup>(1)</sup></i>	<b>2021</b>	<b>99.2%</b>	<b>97.1%</b>	<b>97.4%</b>	<b>95.2%</b>	<b>97.3%</b>
	2020	99.5%	97.5%	98.4%	88.8%	96.0%
<i>Average contractual rent per sq.ft. for the twelve months ended December 31-Canadian properties<sup>(2)</sup></i>	<b>2021</b>	<b>\$20.67</b>	<b>\$11.80</b>	<b>\$7.30</b>	<b>N/A</b>	<b>\$12.77</b>
	2020	\$26.29	\$21.30	\$7.21	N/A	\$18.52
<i>Average contractual rent per sq.ft. for the twelve months ended December 31-U.S. properties (USD)<sup>(2)(3)</sup></i>	<b>2021</b>	<b>\$36.04</b>	<b>\$19.18</b>	<b>\$4.11</b>	<b>\$23.79</b>	<b>\$23.18</b>
	2020	\$33.84	\$19.14	\$4.06	\$20.09	\$21.06
<i>Average remaining term to maturity of leases as at December 31 (in years)</i>	<b>2021</b>	<b>8.8</b>	<b>8.8</b>	<b>5.6</b>	<b>N/A</b>	<b>8.3</b>
	2020	12.2	6.9	6.4	N/A	9.5
<i>Average remaining term to maturity of mortgages payable as at December 31 (in years)</i>	<b>2021</b>	<b>3.8</b>	<b>8.2</b>	<b>4.2</b>	<b>6.4</b>	<b>5.8</b>
	2020	2.7	3.7	5.1	7.6	4.9

(1) Same-Asset refers to those properties owned by H&R for the two-year period ended December 31, 2021.

(2) Excludes properties sold in their respective year.

(3) Excludes the office component of River Landing Commercial which is currently in lease-up.

**SIGNIFICANT 2021 HIGHLIGHTS**Transformational Strategic Repositioning Plan:

On October 27, 2021, H&R announced its transformational strategic repositioning plan to create a simplified, growth-oriented business focused on residential and industrial properties in order to surface significant value for unitholders. H&R's target is to be a leading owner, operator and developer of residential and industrial properties, creating value through redevelopment and greenfield development in prime locations within Toronto, Montreal, Vancouver, and high growth U.S. sunbelt and gateway cities.

2021 was a year of significant change for H&R, where the REIT executed on, and completed a number of significant transactions in furtherance of its strategic repositioning plan.

2021 Highlights:

- **Bow and Bell office campus sale:** The sale of the Bow and Bell Office Campus in October 2021 significantly reduced Calgary office exposure, enhanced tenant diversification, and created the liquidity and strengthened balance sheet to enable the Primaris Spin-Off.
- **Primaris Spin-Off:** H&R carried out a tax-free Primaris spin-off of the REIT's Primaris properties on December 31, 2021, including all of H&R's enclosed malls into a new, completely independent, stand-alone, publicly traded REIT, known as Primaris REIT.
- **U.S. office property sale:** H&R sold a 172,039 square foot single-tenanted property in Culver City, CA for approximately U.S. \$165.0 million in January 2021.
- **50% owned Industrial dispositions:** During 2021, H&R sold its 50% ownership interest in 14 single tenanted properties and two multi-tenanted properties encompassing 915,611 square feet located across Canada for approximately \$160.4 million.
- **Sold partially owned U.S. residential development completed in Q4 2020:** In September 2021, the REIT sold its 31.7% non-managing interest in The Exchange at Bayfront in Hercules, CA for approximately U.S. \$35.9 million.
- **River Landing Development:** H&R completed its River Landing development in Miami, FL in Q2 2021 with residential occupancy exceeding management's expectations on leasing velocity.

- **\$300M debenture issuance:** In February 2021, H&R issued \$300.0 million principal amount of 2.633% Series S Senior Debentures maturing February 19, 2027.
- **Future Intensification projects:** H&R has submitted rezoning, site plan and plan amendment applications for six office properties with an additional three submissions pending for two office properties and one industrial property, further outlined on page 19 of this MD&A.

Benefits of these transactions include:

(comparison figures are from December 31, 2020 to December 31, 2021 at the REIT's proportionate share<sup>(1)</sup>, unless otherwise stated)

- Greater concentration to higher growth residential and industrial assets, with reduced exposure to retail and office properties.
  - Increased U.S. residential property exposure from 21.0% to 32.1%.
  - Completely eliminated exposure to enclosed retail shopping centres.
  - Reduced retail property exposure from \$3.9 billion to \$1.8 billion.
  - Reduced Calgary office property exposure from \$1.2 billion to \$221.1 million.
- Enhanced major market presence in the Greater Toronto Area and high-growth U.S. sunbelt and gateway cities.
  - Reduced Alberta property exposure from \$2.3 billion to \$482.5 million.
- Improved balance sheet enhances financial flexibility to execute on expanding the REIT's residential platform through developments.
  - Improved debt to total assets at the REIT's proportionate share from 51.1% to 46.6%.
- Enhanced tenant diversification
  - Reduced exposure to Ovintiv Inc. from 11.9% to 2.7% of rental revenue from investment properties.

<sup>(1)</sup> This a non-GAAP measure. Refer to the "Non-GAAP Measures" section of this MD&A.

The Bow and Bell Office Campus Sale

On August 3, 2021, H&R announced it had entered into agreements to sell a 100% ownership interest in the land and building of the 2.0 million square foot Bow office property ("the Bow") in Calgary, AB and an 85% effective interest in the net rent payable under the Ovintiv Inc. lease ("Ovintiv lease") through expiry in May 2038, further outlined below. In addition, H&R also entered into an agreement to sell a 100% ownership interest in the 1.1 million square foot Bell office campus ("Bell Office Campus") located in Mississauga, ON. Total gross proceeds from these dispositions were approximately \$1.47 billion. The closing of these transactions ("the Bow and Bell Transaction") occurred in October 2021.

As part of the Bow and Bell Transaction, in October 2021, H&R redeemed its Bow Centre Street Limited Partnership Series B and Series C Secured Bonds secured by the Bow for a combined redemption amount of \$524 million, inclusive of pre-payment penalties. H&R has also repaid \$25 million of mortgages secured by the Bell Office Campus, inclusive of pre-payment penalties, while another \$97 million of associated mortgage debt was assumed by the buyer. Combined proceeds after the above debt repayments, mortgage assumption and transaction costs amounted to approximately \$800.0 million. These proceeds were used to repay lines of credit and the mortgage secured against Two Gotham Centre, Long Island City, NY totalling \$419.0 million. The remaining proceeds were used to redeem the \$325.0 million principal amount outstanding 2.923% Series L Senior Debentures of the REIT in November 2021.

*Sale of the Bow property and 40% interest in the Ovintiv lease*

In October 2021, the REIT sold its interest in the Bow property including 40% of the future income stream derived from the Ovintiv lease until the end of the lease term in May 2038 to an arm's length third party, Oak Street Real Estate Capital ("Oak Street") for approximately \$528.0 million. Subsequent to the maturity of the Ovintiv lease, Oak Street will receive all future lease revenue earned by the property. Although the REIT sold the property, the transaction did not meet the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of the Bow property for approximately \$737.0 million (\$368 per sq. ft.) in 2038 or earlier under certain circumstances. This option is substantially below the current aggregate sale proceeds of \$946.0 million and it provides H&R the ability to capture potential upside in the Calgary office market over an extended time frame of approximately 16 years. As such, the REIT continues to recognize the income producing property whereby the fair value will be adjusted over the remaining life of the Ovintiv lease bringing the value of the real estate asset to nil by the lease maturity. The net proceeds received by the REIT on disposition were \$496.1 million. These proceeds were recorded as Bow deferred revenue (classified as a liability) and will be amortized over the remaining term of the lease (40% of the rental income remitted to Oak Street will consist of principal and interest).

*Sale of 45% interest in the Ovintiv lease*

In a separate transaction, in October 2021, the REIT sold 45% of its residual 60% interest in the future income stream derived from the Ovintiv lease to an arm's length third party that was financed by Deutsche Bank Credit Solutions and Direct Lending ("Deutsche Bank"). The REIT received a lump-sum cash payment of \$418.0 million as consideration.



*Summary*

H&R effectively retains a 15% interest in the net rent payable under the Ovintiv lease to the expiry of the lease in May 2038. The retained interest in the cash flow from the Ovintiv lease totals approximately \$15.0 million annually.

The following is a summary of the Bow in the REIT's consolidated statement of financial position in the REIT's Financial Statements:

<b>(in thousands of Canadian dollars)</b>	<b>December 31 2021</b>
Income producing property - fair value of the Bow <sup>(1)</sup>	\$1,042,918
Bow deferred revenue (net of amortized principal of \$7,576)	896,801

<sup>(1)</sup> The fair value of the income producing property will be reduced as the remaining financial benefit from this income producing property diminishes over the term of the lease.

The following is a summary of the financial results for the Bow included in the consolidated statements of comprehensive income (loss) in the REIT's Financial Statements as well as a reconciliation of the Bow's contribution to FFO and AFFO:

<b>(in thousands of Canadian dollars)</b>	<b>October 2021</b>	<b>November 2021</b>	<b>December 2021</b>	<b>Three months ended December 31, 2021</b>	<b>Year ended December 31, 2021</b>
Rental income earned from the Bow	\$5,533	\$1,191	\$1,241	\$7,965	\$81,194
Rental income accrued from the Bow - <b>non-cash</b>	2,634	6,943	6,943	16,520	16,520
Straight-lining of contractual rent	-	-	-	-	1,254
Revenue reimbursement for property operating costs	1,754	5,618	3,369	10,741	42,058
Property operating costs	(1,754)	(5,618)	(3,369)	(10,741)	(42,058)
Property operating income from the Bow	8,167	8,134	8,184	24,485	98,968
Finance cost - operations	(1,390)	-	-	(1,390)	(20,172)
Finance income	36	32	2	70	60
Accretion finance expense on Bow deferred revenue - <b>non-cash</b>	(1,426)	(3,759)	(3,759)	(8,944)	(8,944)
Fair value adjustment on real estate asset - <b>non-cash</b>	-	-	(4,391)	(4,391)	90,817
Net income from the Bow	5,387	4,407	36	9,830	160,729
Fair value adjustment on real estate asset	-	-	4,391	4,391	(90,817)
The Bow non-cash rental and accretion adjustment	(1,208)	(3,184)	(3,184)	(7,576)	(7,576)
FFO from the Bow <sup>(1)</sup>	4,179	1,223	1,243	6,645	62,336
Straight-lining of contractual rent	-	-	-	-	(1,254)
AFFO from the Bow <sup>(1)</sup>	\$4,179	\$1,223	\$1,243	\$6,645	\$61,082

<sup>(1)</sup> These are non-GAAP measures. Refer to the "Non-GAAP Measures" section of this MD&A.

Excluding the non-cash rental income adjustment under IFRS 15, property operating income from the Bow for the three months and year ended December 31, 2021 was \$8.0 million and \$82.4 million, respectively.

*The Bell Office Campus Sale*

In October 2021, H&R sold its 100% interest in the 1.1 million square foot Bell Office Campus ("Bell Office Campus") located in Mississauga, ON. Total proceeds were approximately \$525.0 million. H&R continues to manage the Bell Office Campus for the remainder of the term of the existing Bell Office Campus leases, earning management fees of approximately \$1.6 million annually.

Property operating income from the Bell Office Campus for the three months and year ended December 31, 2021 was \$1.8 million and \$27.0 million, respectively. FFO for the three months and year ended December 31, 2021 was \$1.7 million and \$22.6 million, respectively. AFFO for the three months and year ended December 31, 2021 was \$1.7 million and \$20.7 million, respectively.

Primaris Spin-Off

On October 27, 2021, H&R announced its intention to spin-off its enclosed mall portfolio and together with Healthcare of Ontario Pension Plan (“HOOPP”) create Primaris REIT. Primaris REIT’s scale, portfolio composition and capital structure were designed to allow Primaris REIT to grow and thrive in the new retail landscape. The Primaris Spin-Off was completed on December 31, 2021. Primaris REIT now owns interests in 35 shopping centres with an appraised value of approximately \$3.2 billion encompassing 11.4 million square feet of gross leasable area (“GLA”) at Primaris REIT’s share. H&R contributed 27 properties with an appraised value of approximately \$2.4 billion and HOOPP contributed eight properties with an appraised value of approximately \$0.8 billion. H&R’s secured debt was reduced by approximately \$580.0 million in respect of the mortgages to be assumed by Primaris REIT.

Primaris REIT has substantial scale, a differentiated low leverage financial model and a full service, vertically integrated management platform. Primaris REIT’s board of trustees and management are independent with no overlap with H&R’s board of trustees and management, and operates as a distinct and separate publicly-traded entity. Immediately following the Primaris Spin-Off, H&R unitholders directly owned approximately 74% of Primaris REIT units outstanding, and HOOPP owned approximately 26% of Primaris REIT units outstanding. Primaris REIT’s units began independently trading on the TSX under the ticker PMZ.UN on January 5, 2022.

Pursuant to a step in the Arrangement, H&R unitholders received Primaris REIT units having an implied net asset value on the closing date of \$5.53 per Unit. As a subsequent step in the Arrangement, the Primaris REIT units were consolidated such that each holder of Units received one Primaris REIT unit for every four Units held and resulting in REIT unitholders holding Primaris REIT units in addition to their Units as at December 31, 2021.

The following is a summary of the results of the Primaris Spin-Off which have been included in the consolidated statements of comprehensive income (loss) in the REIT’s Financial Statements as well as a reconciliation to FFO and AFFO from these properties:

<b>(in thousands of Canadian dollars)</b>	<b>Three months ended</b>	<b>Year ended</b>
	<b>December 31, 2021</b>	
Property operating income	\$34,590	\$134,137
Finance costs - operations	(4,387)	(19,873)
Finance income	5	17
Trust expenses	(1,034)	(2,591)
Fair value adjustment on financial instruments	-	(4,532)
Fair value adjustment on real estate assets	(15,854)	247,924
Gain on sale of real estate assets	-	5
Income tax expense	-	(3)
<b>Net income</b>	<b>13,320</b>	<b>355,084</b>
Exchangeable unit distributions	-	500
Fair value adjustments on financial instruments and real estate assets	-	4,532
Fair value adjustment to unit-based compensation	15,854	(247,924)
Gain on sale of real estate assets	-	(5)
Incremental leasing costs	1,025	4,180
<b>FFO<sup>(1)</sup></b>	<b>30,199</b>	<b>116,367</b>
Straight-lining of contractual rent	(869)	(3,133)
Capital expenditures	(4,494)	(11,617)
Leasing expenses and tenant inducements	(3,392)	(9,603)
Incremental leasing costs	(1,025)	(4,180)
<b>AFFO<sup>(1)</sup></b>	<b>\$20,419</b>	<b>\$87,834</b>

(1) These are non-GAAP measures. Refer to the “Non-GAAP Measures” section of this MD&A.

Further details on the Primaris Spin-Off can be found in H&R’s management information circular dated November 5, 2021 (the “Circular”), relating to the unitholder meeting held on December 13, 2021 regarding the Arrangement giving effect to the Primaris Spin-Off, and resulting in REIT unitholders holding Primaris REIT units which is available at [www.hr-reit.com](http://www.hr-reit.com) and [www.sedar.com](http://www.sedar.com). The circular is not incorporated by reference into, and does not form part of this MD&A.

### Completion of River Landing Development

River Landing is an urban in-fill mixed use property site in Miami, FL which was completed in Q2 2021. River Landing includes approximately 341,000 square feet of retail space, approximately 149,000 square feet of office space and 528 residential rental units. It is adjacent to the Health District with approximately 1,000 feet of waterfront on the Miami River, two miles from downtown Miami.

In Q1 2021, the first of two residential towers at River Landing reached substantial completion and was transferred from properties under development to investment properties. In Q2 2021, the second residential tower at River Landing reached substantial completion and was transferred from properties under development to investment properties. The total amount transferred from properties under development to investment properties for the two residential towers was U.S. \$201.6 million. As at December 31, 2021, residential occupancy was 94.9%, exceeding management's expectations on leasing velocity.

In Q4 2020, the retail and office portion of this project "River Landing Commercial" reached substantial completion and U.S. \$294.3 million was transferred from properties under development to investment properties. As at December 31, 2021, retail occupancy was 79.6% with the remaining retail lease-up expected to occur during the first half of 2022. Major retail tenants include: Publix Super Markets Inc., Hobby Lobby, Burlington, Ross Stores Inc., T.J. Maxx, Old Navy and Planet Fitness. During Q2 and Q3 2021, the REIT signed two major office leases with the following tenants: (i) Office of the State Attorney – Miami-Dade County to occupy approximately 50,000 square feet and (ii) Public Health Trust of Miami Dade County to occupy 43,351 square feet. As at December 31, 2021, committed office occupancy was 64.0%. The REIT is continuing negotiations with multiple parties on the remaining office space.

### Debt Highlights

As at December 31, 2021, debt to total assets at the REIT's proportionate share was 46.6% compared to 51.1% as at December 31, 2020. The weighted average interest rate of H&R's debt as at December 31, 2021 was 3.7% with an average term to maturity of 4.0 years.

#### *Mortgages:*

During the year ended December 31, 2021, H&R secured seven new mortgages totalling \$359.2 million at a weighted average interest rate of 2.1% for an average term of 1.5 years and excluding the Primaris Spin-Off, repaid 28 mortgages totalling approximately \$1.5 billion (including mortgages repaid upon sale) at a weighted average interest rate of 3.9%. On December 31, 2021, \$580.0 million of mortgages were transferred to Primaris REIT pursuant to the Primaris Spin-Off.

#### *Debentures:*

In February 2021, H&R issued \$300.0 million principal amount of 2.633% Series S Senior Debentures maturing February 19, 2027. The proceeds were used to repay the term loan noted below as well as lines of credit.

In November 2021, H&R used proceeds from the Bow and Bell Transaction to redeem all of its \$325.0 million outstanding 2.923% Series L Senior Debentures which were maturing May 6, 2022. H&R incurred a prepayment penalty of \$3.3 million.

#### *Unsecured Term Loans:*

In March 2021, the REIT repaid a \$200.0 million unsecured term loan.

#### *Lines of Credit:*

In April 2021, the REIT secured a one-year extension on the H&R and CrestPSP revolving secured line of credit for \$25.0 million at H&R's ownership interest. The maturity date was extended to April 30, 2022.

As part of the Primaris Spin-Off, in December 2021, H&R renegotiated its credit facilities which resulted in H&R cancelling three revolving unsecured facilities totalling \$650.0 million. In addition, H&R reduced the \$300.0 million Primaris revolving line of credit to \$150.0 million which was then transferred to Primaris REIT on December 31, 2021 pursuant to the Primaris Spin-Off. H&R replaced these facilities with a new \$750.0 million revolving unsecured facility maturing December 14, 2026.

### Liquidity

As at December 31, 2021, H&R had cash on hand of \$124.1 million, \$952.4 million available under its unused lines of credit and an unencumbered property pool of approximately \$4.0 billion.

### 2021 Taxation Consequences for Taxable Canadian Unitholders

The REIT's cash distributions amounted to \$0.79 per Unit during 2021 (including a \$0.10 per Unit special cash distribution to unitholders of record on December 31, 2021). Of these cash distributions, 3.9% will be designated as capital gains. The REIT also made a special distribution to unitholders of record on December 31, 2021 of \$0.63 per Unit payable in additional Units, which were immediately consolidated such that there was no change in the number of outstanding Units. 100% of the special distribution payable in Units will be designated as capital gains. The cash portion of the special distribution was intended to provide liquidity to unitholders to cover all or part of an income tax obligation that may arise from the additional taxable income being distributed via the special distribution. The amount of the special distribution payable in Units (\$0.63 per Unit) will increase the adjusted cost basis ("ACB") of unitholders' consolidated Units prior to the apportionment of ACB to Primaris REIT units described below.

#### *Primaris Spin-Off:*

As described in the REIT's Circular, a REIT unitholder will not realize any income or gain solely as a result of the Primaris Spin-Off and acquisition of Primaris REIT units. The "REIT Transfer Percentage", as defined in the Circular, is now confirmed to be 27%. Unitholders' ACB of their REIT Units should decrease by 27% as a result of the Primaris Spin-Off. Conversely, unitholders' ACB of the Primaris REIT units issued on December 31, 2021 should initially be 27% of the unitholders' former ACB of Units immediately prior to the Primaris Spin-Off.

### 2022 Distributions

H&R currently anticipates an annual distribution of \$0.52 per Unit. Following the spinoff of Primaris REIT to H&R's unitholders, Primaris REIT declared its January 2022 monthly distribution of \$0.067 per Primaris REIT unit, reflecting \$0.80 per unit on an annualized basis (equivalent to \$0.20 per H&R Unit annually prior to the Primaris Spin-Off and 4:1 consolidation of Primaris REIT units). The Primaris REIT distribution together with H&R's intended annual distribution of \$0.52 equates to a combined distribution of \$0.72 per Unit which is a 4.3% increase over the \$0.69 per Unit paid by H&R in 2021. The current H&R annual distribution of \$0.52 per Unit is expected to result in an FFO payout ratio between 45% and 55%.

### Normal Course Issuer Bid

On December 13, 2021, the REIT received approval from the TSX for the renewal of its normal course issuer bid ("NCIB") allowing the REIT to purchase for cancellation up to a maximum of 14.0 million Units on the open market until the earlier of December 15, 2022 or the date on which the REIT purchased the maximum number of Units permitted under the NCIB. During the year ended December 31, 2021, the REIT did not purchase any Units for cancellation.

As at February 9, 2022, the REIT purchased and cancelled 4,222,700 Units at a weighted average price of \$13.00 per Unit, for a total cost of \$54.9 million.

## 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, 2021	December 31, 2020
For each U.S. \$1.00	<b>\$1.26 CAD</b>	\$1.27 CAD

(in thousands of Canadian dollars)	December 31, 2021	December 31, 2020
<b>Assets</b>		
Real estate assets		
Investment properties	<b>\$8,581,100</b>	\$11,149,130
Properties under development	<b>481,432</b>	449,849
	<b>9,062,532</b>	11,598,979
Equity accounted investments	<b>992,679</b>	955,468
Assets classified as held for sale	-	219,050
Other assets	<b>321,789</b>	519,088
Cash and cash equivalents	<b>124,141</b>	62,859
	<b>\$10,501,141</b>	\$13,355,444
<b>Liabilities and Unitholders' Equity</b>		
Liabilities		
Debt	<b>\$3,894,906</b>	\$6,368,316
Exchangeable units	<b>216,841</b>	197,796
Bow deferred revenue	<b>896,801</b>	-
Deferred tax liability	<b>350,501</b>	348,755
Accounts payable and accrued liabilities	<b>368,259</b>	369,186
	<b>5,727,308</b>	7,284,053
Unitholders' equity	<b>4,773,833</b>	6,071,391
	<b>\$10,501,141</b>	\$13,355,444

**ASSETS****Real Estate Assets:**

<b>Change in Investment Properties (in thousands of Canadian dollars)</b>	<b>REIT's Financial Statements</b>	<b>Plus: equity accounted investments</b>	<b>REIT's proportionate share<sup>(1)</sup></b>
Opening balance, January 1, 2021	<b>\$11,149,130</b>	\$1,859,381	\$13,008,511
Acquisitions, including transaction costs	<b>96,211</b>	489	96,700
Dispositions	<b>(654,282)</b>	(35,121)	(689,403)
Primaris Spin-Off	<b>(2,403,350)</b>	-	(2,403,350)
Operating capital:			
Capital expenditures	<b>47,089</b>	3,992	51,081
Leasing expenses and tenant inducements	<b>18,865</b>	850	19,715
Redevelopment (including capitalized interest)	<b>77,105</b>	-	77,105
Jackson Park Brownfield Cleanup Program Tax Credit	-	(38,898)	(38,898)
Amortization of tenant inducements and straight-lining of contractual rents	<b>20,687</b>	(957)	19,730
Transfer of properties under development that have reached substantial completion to investment properties	<b>251,535</b>	9,591	261,126
Transfer of investment property to properties under development	-	(182)	(182)
Change in right-of-use asset <sup>(2)</sup>	-	(8,823)	(8,823)
Fair value adjustment on real estate assets	<b>5,881</b>	46,885	52,766
Change in foreign exchange	<b>(27,771)</b>	(12,598)	(40,369)
Closing balance, December 31, 2021	<b>\$8,581,100</b>	\$1,824,609	\$10,405,709

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

(2) At December 31, 2021, the right-of-use asset in a leasehold interest of \$31.0 million (included in equity accounted investments) was measured at an amount equal to the corresponding lease liability.

<b>2021 Acquisition:</b>	<b>Year Built</b>	<b>Segment</b>	<b>Date Acquired</b>	<b>Square Feet</b>	<b>Purchase Price (\$ Millions)</b>	<b>Ownership Interest Acquired</b>
77 Union St., Toronto, ON	1969	Industrial	Dec 3, 2021	195,000	\$92.5	100%

<b>2020 Acquisitions:</b>	<b>Year Built</b>	<b>Segment</b>	<b>Date Acquired</b>	<b>Square Feet</b>	<b>Purchase Price (\$ Millions)</b>	<b>Ownership Interest Acquired</b>
2001 Forbes St., Whitby, ON <sup>(1)</sup>	1986	Industrial	Jan 29, 2020	93,330	\$6.6	50%
7575 Brewster Ave., Philadelphia, PA <sup>(1)(2)</sup>	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%
<b>Total</b>				<b>185,588</b>	<b>\$33.5</b>	

(1) Square feet and purchase price are listed at H&R's ownership interest.

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

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**2021 Dispositions<sup>(1)(2):</sup>**

Property	Segment	Date Sold	Square Feet	Selling Price (\$ Millions) <sup>(1)</sup>	Ownership Interest Sold
9050 W. Washington Blvd., Culver City, CA <sup>(3)(4)</sup>	Office	Jan 25, 2021	172,039	\$209.6	100%
2 East Beaver Creek, Richmond Hill, ON <sup>(4)(5)</sup>	Industrial	Mar 1, 2021	39,294	9.6	50%
550 McAllister Dr., Saint John, NB <sup>(5)</sup>	Industrial	Jun 28, 2021	52,047	5.9	50%
1 Duck Pond Rd., Lakeside, NS <sup>(5)</sup>	Industrial	Jun 28, 2021	52,988	4.2	50%
460 MacNaughton Ave., Moncton, NB <sup>(5)</sup>	Industrial	Jun 28, 2021	38,152	4.2	50%
10 Old Placentia Rd., Mount Pearl, NL <sup>(5)</sup>	Industrial	Jun 28, 2021	40,365	4.1	50%
611 Ferdinand Blvd., Dieppe, NB <sup>(5)</sup>	Industrial	Jun 28, 2021	31,527	2.9	50%
190 Goodrich Dr., Kitchener, ON <sup>(5)</sup>	Industrial	Jun 30, 2021	36,562	12.0	50%
131 McNabb St., Markham, ON	Office	Jul 21, 2021	54,100	13.1	100%
316 Aviva Park Dr., Vaughan, ON <sup>(5)</sup>	Industrial	Jul 29, 2021	84,046	28.7	50%
1588 Cliveden Ave., Delta, BC <sup>(5)</sup>	Industrial	Jul 29, 2021	43,694	25.8	50%
6100 Chemin de la Cote-de-Liesse Rd., Montreal, QC <sup>(5)</sup>	Industrial	Jul 29, 2021	101,683	15.0	50%
19572-94 Ave., Surrey, BC <sup>(5)</sup>	Industrial	Jul 29, 2021	39,240	12.0	50%
5555-78 Ave., Calgary, AB <sup>(5)</sup>	Industrial	Jul 29, 2021	74,066	11.8	50%
590 Nash Road N., Hamilton, ON <sup>(5)</sup>	Industrial	Jul 29, 2021	113,851	9.6	50%
20 Pettipas Dr., Dartmouth, NS <sup>(5)</sup>	Industrial	Jul 29, 2021	69,273	6.6	50%
1035 Wilton Grove Rd., London, ON <sup>(5)</sup>	Industrial	Jul 29, 2021	74,234	5.6	50%
96 Glencoe Dr., Mount Pearl, NL <sup>(5)</sup>	Industrial	Jul 29, 2021	24,589	2.4	50%
5099 Creekbank Rd., Mississauga, ON	Office	Oct 7, 2021	525,921	242.0	100%
5025 Creekbank Rd., Mississauga, ON	Office	Oct 7, 2021	365,295	168.7	100%
5115 Creekbank Rd., Mississauga, ON	Office	Oct 7, 2021	249,118	114.3	100%
6330 N. State Rd. 7, Coconut Creek, FL <sup>(3)</sup>	Retail	Dec 10, 2021	9,553	13.1	100%
<b>Total</b>			<b>2,291,637</b>	<b>\$921.2</b>	

<sup>(1)</sup> Excludes the Bow, as the transaction did not meet the criteria of a transfer of control under IFRS 15 since the REIT has an option to repurchase 100% of the Bow property in 2038 or earlier under certain circumstances. As such, the REIT continues to recognize the income producing property. Refer to page 9 of this MD&A for further information.

<sup>(2)</sup> Excludes the Primaris Spin-Off which was disposed of pursuant to a qualifying disposition for no consideration to Primaris REIT in order to effect the tax-free nature of the spin-off.

<sup>(3)</sup> U.S. dispositions have been translated to Canadian dollars at the exchange rate as at the date sold.

<sup>(4)</sup> Classified as held for sale as at December 31, 2020.

<sup>(5)</sup> Square feet and selling price are based on the ownership interest disposed and H&R no longer holds any ownership interest in these assets.

**2020 Dispositions:**

Property	Segment	Date Sold	Square Feet	Selling Price (\$ Millions) <sup>(1)</sup>	Ownership Interest Sold
8401 Memorial Ln., Plano, TX <sup>(2)</sup>	Residential	Jan 9, 2020	362,785	\$86.5	100%
12601 South Green Dr., Houston, TX <sup>(2)</sup>	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 <sup>(3)</sup>	Industrial	Apr 30, 2020	363,983	17.4	50%
111 Clarence St., Port Colborne, ON	Retail	Aug 12, 2020	14,849	1.2	100%
<b>Total</b>			<b>1,125,930</b>	<b>\$146.5</b>	

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

<sup>(2)</sup> 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.

<sup>(3)</sup> Classified as held for sale as at December 31, 2019. Square feet and selling price are based on the ownership interest disposed and H&R no longer holds any ownership interest in this asset.

**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, 2021							
Operating Segment (in millions of Canadian dollars)	REIT's Financial Statements			Equity Accounted Investments			REIT's Proportionate Share <sup>(1)</sup>
	Investment Properties	Properties Under Development	Sub Total	Investment Properties	Properties Under Development	Sub Total	
Office <sup>(2)</sup>	\$4,370	\$8	\$4,378	\$ -	\$ -	\$ -	\$4,378
Retail	967	-	967	834	8	842	1,809
Industrial	1,212	116	1,328	14	20	34	1,362
Residential	2,032	357	2,389	977	137	1,114	3,503
<b>Total</b>	<b>\$8,581</b>	<b>\$481</b>	<b>\$9,062</b>	<b>\$1,825</b>	<b>\$165</b>	<b>\$1,990</b>	<b>\$11,052</b>

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

(2) Includes the Bow, valued at \$1.043 billion.

December 31, 2021							
Geographic Location (in millions of Canadian dollars)	REIT's Financial Statements			Equity Accounted Investments			REIT's Proportionate Share <sup>(1)</sup>
	Investment Properties	Properties Under Development	Sub Total	Investment Properties	Properties Under Development	Sub Total	
Ontario	\$2,763	\$116	\$2,879	\$ -	\$20	\$20	\$2,899
Alberta <sup>(2)</sup>	1,525	-	1,525	-	-	-	1,525
Other	486	8	494	-	-	-	494
Canada	4,774	124	4,898	-	20	20	4,918
United States	3,807	357	4,164	1,825	145	1,970	6,134
<b>Total</b>	<b>\$8,581</b>	<b>\$481</b>	<b>\$9,062</b>	<b>\$1,825</b>	<b>\$165</b>	<b>\$1,990</b>	<b>\$11,052</b>

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

(2) Includes the Bow, valued at \$1.043 billion.

**Capitalization Rates:**

The capitalization rates disclosed below are reported by segment and geographic location at the REIT's proportionate share (excluding assets classified as held for sale) which differs from the REIT's Financial Statements. The Bow has been excluded from the 2021 Canada Office and Canada Total capitalization rates.

December 31, 2021	Office	Retail	Industrial	Residential	Total
Canada	5.83%	5.96%	5.13%	-	5.63%
United States	6.52%	6.31%	6.79%	4.34%	5.30%

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%



**Canadian Properties under Development:**

As at December 31, 2021				At H&R's Ownership Interest				
(in thousands of Canadian dollars)	Ownership Interest	Square Feet	Number of Acres	Total Development Budget	Properties Under Development	Costs Remaining to Complete	Expected Yield on Cost	Expected Completion Date
<b>Current Developments:</b>								
34 Speirs Giffen Ave., Caledon, ON <sup>(1)</sup>	100.0%	105,014	4.9	\$16,342	\$10,325	\$6,017	7.0%	Q2 2022
140 Speirs Giffen Ave., Caledon, ON <sup>(2)</sup>	100.0%	77,875	4.7	14,358	9,080	5,278	6.0%	Q2 2022
		<b>182,889</b>	<b>9.6</b>	<b>30,700</b>	<b>19,405</b>	<b>11,295</b>		
<b>2022 Construction Starts<sup>(3)</sup>:</b>								
Meadowvale Commerce Pk., Mississauga, ON <sup>(4)</sup>	100.0%	330,000	15.4	-	21,305	-		2023
Slate Dr., Mississauga, ON <sup>(5)</sup>	50.0%	245,000	12.3	-	20,026	-		2023
		<b>575,000</b>	<b>27.7</b>	<b>-</b>	<b>41,331</b>	<b>-</b>		
<b>Future Developments<sup>(3)</sup>:</b>								
Industrial Lands (Remaining lands), Caledon, ON	100.0%		117.6	-	75,259	-		
3791 Kingsway, Burnaby, BC <sup>(6)</sup>	50.0%		0.3	-	8,509	-		
			<b>117.9</b>	<b>-</b>	<b>83,768</b>	<b>-</b>		
<b>Total Developments:</b>		<b>757,889</b>	<b>155.2</b>	<b>\$30,700</b>	<b>\$144,504</b>	<b>\$11,295</b>		

<sup>(1)</sup> In April 2021, H&R entered into a 10-year lease with an industrial tenant to occupy the entire property totalling 105,014 square feet. This will be the second property constructed at H&R's industrial business park in Caledon, ON.

<sup>(2)</sup> This will be the third property constructed at H&R's industrial business park in Caledon, ON, completing the first phase of H&R's Caledon industrial development.

<sup>(3)</sup> The development budgets for the 2022 Constructions Starts and Future Developments have not been finalized as at December 31, 2021.

<sup>(4)</sup> Expected to be developed into two industrial buildings totalling approximately 330,000 square feet.

<sup>(5)</sup> Expected to be developed into two industrial buildings totalling approximately 245,000 square feet at H&R's ownership interest.

<sup>(6)</sup> Excess lands held for future-redevelopment. These lands are adjacent to the REIT's 3777 Kingsway office tower of which H&R also has a 50% ownership interest.

**U.S. Properties under Development:**

In January 2021, H&R acquired 12.4 acres of vacant land in Jersey City, NJ for U.S. \$162.0 million.

In January 2021, H&R acquired 4.2 acres of land in Dallas, TX for U.S. \$9.1 million, which is expected to be developed into 351 residential rental units. The site is located adjacent to US Hwy 75 with substantial visibility (approximately 275,000 vehicles per day) and proximity to downtown Dallas and other major thoroughfares including I-635 and the Dallas North Tollway.

In March 2021, H&R sold an office property under development in Dallas, TX for U.S. \$1.2 million. Upon closing, the REIT issued a vendor take-back mortgage for U.S. \$1.0 million, maturing March 31, 2023, bearing interest at 4.0% for the first year and 5.0% for the second year.

In September 2021, H&R acquired 3.7 acres of land in Dallas, TX for U.S. \$6.3 million, which is expected to be developed into 290 residential rental units. The site is located within CityLine, a mixed-used development in the Dallas suburb of Richardson, TX which spans 186 acres, including approximately 2.5 million square feet of Class A office space and is anchored by the regional headquarters of State Farm Insurance.

In September 2021, H&R sold its 33.3% non-managing interest in Esterra Park, a 263 residential rental unit development in Seattle, WA for approximately U.S. \$43.8 million and recorded a gain on sale of U.S. \$8.7 million at the REIT's ownership interest. H&R's total cost to build this property was approximately U.S. \$35.1 million at the REIT's ownership interest. The return on equity invested amounted to approximately 81.7%.

In December 2021, H&R acquired 14.8 acres of land in Tampa, FL for U.S. \$15.5 million, which is expected to be developed into 350 residential rental units. The site is located within the highly coveted Wiregrass Ranch mixed-use development which is characterized by highly-rated public schools and numerous resident amenities, including a 67-acre open air retail and entertainment lifestyle centre.

As at December 31, 2021, The Pearl was classified as an asset held for sale within equity accounted investments with a fair value of U.S. \$45.5 million at H&R's ownership interest. Total project costs incurred as at December 31, 2021 amounted to U.S. \$24.8 million, and the REIT recorded a fair value adjustment of U.S. \$20.7 million in Q4 2021, both at H&R's ownership interest. The Pearl is expected to be sold in March 2022.

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The REIT's U.S. development pipeline consists of the following: (i) two current residential rental developments; (ii) six residential developments expected to have 2022 construction starts; and (iii) six residential developments/land parcels held for future development:

As at December 31, 2021				At H&R's Ownership Interest				
(in thousands of U.S. dollars)	Ownership Interest	Number of Acres	Number of Residential Rental Units	Total Development Budget	Properties Under Development	Costs Remaining to Complete	Expected Yield on Cost	Expected Completion Date
<b>Current Developments:</b>								
Shoreline, Long Beach, CA	31.2%	0.3	98	\$71,097	\$66,291	\$4,806	6.2%	Q1 2022
Hercules Project (Phase 2), Hercules, CA	31.7%	0.9	100	31,633	30,263	1,370	6.0%	Q1 2022
		<b>1.2</b>	<b>198</b>	<b>102,730</b>	<b>96,554</b>	<b>6,176</b>		
<b>2022 Construction Starts<sup>(1)</sup>:</b>								
West Love, Dallas, TX	100.0%	5.4	413	-	12,260	-		2024
Bayside, Tampa, FL	100.0%	8.4	271	-	7,416	-		2024
Midtown Park, Dallas, TX	100.0%	4.2	351	-	10,327	-		2024
Sunrise (Phase 1), Orlando, FL	100.0%	11.6	322	-	15,397	-		2024
CityLine, Dallas, TX	100.0%	3.7	290	-	6,424	-		2024
The Cove (Phase 1), Jersey City, NJ	100.0%	2.2	500	-	29,226	-		2024
		<b>35.5</b>	<b>2,147</b>	<b>-</b>	<b>81,050</b>	<b>-</b>		
<b>2023 &amp; Future Developments<sup>(1)</sup>:</b>								
The Cove (Remaining Phases), Jersey City, NJ	100.0%	10.2	2,340	-	136,775	-		
Other Remaining Future Developments <sup>(2)</sup>		61.4	2,231	-	77,530	-		
		<b>71.6</b>	<b>4,571</b>	<b>-</b>	<b>214,305</b>	<b>-</b>		
<b>Total Developments (excluding ECHO)</b>		<b>108.3</b>	<b>6,916</b>	<b>\$102,730</b>	<b>\$391,909</b>	<b>\$6,176</b>		

(1) The development budgets for the 2022 Constructions Starts and 2023 & Future Developments have not been finalized as at December 31, 2021.

(2) Consists of five separate parcels of land in the United States totalling 61.4 acres at H&R's ownership interest. 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 five parcels.

Future Intensification Opportunities

As at December 31, 2021, the following properties are being advanced for rezoning for redevelopment into its highest and best use (figures below are shown at H&R's ownership interest).

Property <sup>(1)</sup>	Geography	Ownership	Future Use	Current Square Feet	Anticipated Residential Units	Anticipated Commercial Square Feet	Approval Status <sup>(2)</sup>	Expected Approval Date
145 Wellington St. W.	Toronto, ON	100%	Residential	160,146	400	140,000	ZBA & SPA Submitted	Q2 2022
100 Wynford Dr.	Toronto, ON	100%	Residential	444,898	1,950	440,000	Conversion Letter Submitted	Q3 2022
53 & 55 Yonge St.	Toronto, ON	100%	Residential	172,334	400	170,000	ZBA Submitted	Q1 2023
310 Front St. W.	Toronto, ON	100%	Residential	611,804	450	600,000	ZBA Submitted	Q1 2023
200 Boul. Bouchard	Dorval, QC	100%	Residential	437,157	800	-	Submission Pending	Q1 2023
3777 & 3791 Kingsway	Burnaby, BC	50%	Residential	335,778	1,250	240,000	Rezoning Application Submitted	Q3 2023
77 Union St.	Toronto, ON	100%	Residential	195,000	1,350	100,000	Submission Pending	Q3 2023
69 Yonge St.	Toronto, ON	100%	Residential	87,359	50	10,000	SPA Submitted	TBD
160 McNabb St.	Markham, ON	100%	Industrial	220,000	-	250,000	Submission Pending	TBD
649 North Service Rd.	Burlington, ON	100%	Industrial	123,000	-	140,000	Under Review	TBD
				<b>2,787,476</b>	<b>6,650</b>	<b>2,090,000</b>		

(1) These properties are currently included in H&R's Office segment, however 77 Union St. is currently included in H&R's industrial segment

(2) Zoning By Law Amendment is referred to as "ZBA" and Site Plan Control is referred to as "SPA" in the table above.

**Equity Accounted Investments:**

(in thousands of Canadian dollars)	----- Associates-----		----- Joint Ventures-----							Total <sup>(2)</sup>
	Jackson Park	ECHO	One U.S. Industrial Property	Hercules Project	The Pearl	Esterra Park	Shoreline	Slate	Other <sup>(1)</sup>	
Investment properties	\$976,829	\$833,463	\$14,317	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	<b>\$1,824,609</b>
Properties under development	-	8,309	-	53,326	-	-	83,526	20,026	-	<b>165,187</b>
Assets classified as held for sale	-	-	-	-	57,309	-	-	-	-	<b>57,309</b>
Other assets	2,334	10,990	74	3	64	73	-	13	6	<b>13,557</b>
Cash and cash equivalents	11,633	6,698	787	1,656	609	309	359	18,277	171	<b>40,499</b>
Debt	(622,722)	(309,172)	-	(29,531)	(19,127)	-	(46,284)	-	-	<b>(1,026,836)</b>
Lease liability	-	(31,043)	-	-	-	-	-	-	-	<b>(31,043)</b>
Other liabilities	(7,971)	(36,850)	(159)	(1,264)	(1,817)	(3)	(1,232)	-	(1,307)	<b>(50,603)</b>
<b>December 31, 2021</b>	<b>\$360,103</b>	<b>\$482,395</b>	<b>\$15,019</b>	<b>\$24,190</b>	<b>\$37,038</b>	<b>\$379</b>	<b>\$36,369</b>	<b>\$38,316</b>	<b>(\$1,130)</b>	<b>\$992,679</b>
December 31, 2020	\$353,903	\$471,337	\$15,596	\$37,256	\$9,297	\$13,332	\$34,956	\$20,922	(\$1,131)	\$955,468

(1) Relates to 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 Measures" section of this MD&A.

Jackson Park

H&R owns a 50% interest in Jackson Park, an 1,871 luxury residential rental unit development in Long Island City, NY.

ECHO

H&R owns a 33.7% 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, 2021 and November 30, 2020, respectively. In December 2021, ECHO acquired one investment property for approximately U.S. \$5.5 million at H&R's ownership interest.

As at November 30, 2021, H&R's interest in ECHO consists of 236 investment properties totalling approximately 2.8 million square feet and six properties under development. Giant Eagle, Inc., a supermarket chain in the United States, is ECHO's largest tenant with 194 locations encompassing approximately 1.6 million square feet at H&R's ownership interest with an average lease term to maturity of 9.8 years. Giant Eagle represents approximately 56.3% of revenue earned by ECHO.

U.S. Industrial Properties

As at December 31, 2021, 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, 2020 - one property 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.

Hercules Project

H&R owns a 31.7% non-managing ownership interest in 36.2 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 future waterfront 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, 2021, H&R's equity investment was approximately U.S. \$11.4 million.

In Q4 2020, the Exchange at Bayfront (Phase 1 of the Hercules Project), a 172 residential rental unit development in Hercules, CA was substantially completed. In September 2021, the REIT sold its 31.7% non-managing interest for approximately U.S. \$35.9 million. H&R's total cost to build this property was

approximately U.S. \$25.8 million at the REIT's ownership interest. H&R recorded a gain on sale of U.S. \$8.0 million and had previously recorded a \$2.1 million fair value adjustment when the development was completed. The return on equity invested amounted to approximately 69.3%.

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. \$31.6 million. Construction financing of approximately U.S. \$20.7 million was secured in March 2019, and as at December 31, 2021, U.S. \$19.6 million had been drawn and U.S. \$1.1 million was available to be drawn. All figures have been stated at H&R's ownership interest. As at December 31, 2021, The Grand at Bayfront has started its lease-up and the development is expected to be substantially completed in Q1 2022.

The remaining land parcels totalling 33.4 acres are secured against a U.S. \$3.9 million land loan at H&R's ownership interest. Future phases will be announced as further development information becomes available.

#### The Pearl

H&R owns 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 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. As at December 31, 2021, H&R's equity investment was approximately U.S. \$8.7 million. The total budget for this project is approximately U.S. \$25.0 million. Construction financing of U.S. \$16.0 million was secured in October 2018, and as at December 31, 2021, U.S. \$15.2 million had been drawn and U.S. \$0.8 million was available to be drawn. All figures have been stated at H&R's ownership interest.

As at December 31, 2021, The Pearl was classified as an asset held for sale within equity accounted investments with a fair value of U.S. \$45.5 million at H&R's ownership interest. Total project costs incurred as at December 31, 2021 amounted to U.S. \$24.8 million, and the REIT recorded a fair value adjustment of U.S. \$20.7 million in Q4 2021, both at H&R's ownership interest. The Pearl is expected to be sold in March 2022.

#### Esterra Park

In September 2021, H&R sold its 33.3% non-managing interest in Esterra Park, a 263 residential rental unit development in Seattle, WA for approximately U.S. \$43.8 million and recorded a gain on sale of U.S. \$8.7 million at the REIT's ownership interest. H&R's total cost to build this property was approximately U.S. \$35.1 million at the REIT's ownership interest. The return on equity invested amounted to approximately 81.7%.

#### Shoreline

H&R owns 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" will become the tallest residential tower in Long Beach with 35 floors enjoying views overlooking the Pacific Ocean. Construction commenced in November 2018. As at December 31, 2021, H&R's equity investment was approximately U.S. \$28.9 million. The total budget for this project is approximately U.S. \$71.1 million. Construction financing of U.S. \$41.1 million was secured in December 2018, and as at December 31, 2021, U.S. \$36.7 million had been drawn, and U.S. \$4.4 million was available to be drawn. All figures have been stated at H&R's ownership interest. As at December 31, 2021, Shoreline has started its lease-up and the development is expected to be substantially completed in Q1 2022.

#### Slate Drive

In November 2020, H&R acquired a 50% ownership interest in 24.6 acres of land in Mississauga, ON which is expected to be developed into two industrial buildings totalling approximately 245,000 square feet at H&R's ownership interest. Construction is expected to commence on both buildings in late 2022.

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

As at December 31, 2021, H&R had no properties 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.

**Other Assets**

<b>(in thousands of Canadian dollars)</b>	<b>December 31, 2021</b>	December 31, 2020
Mortgages receivable	<b>\$191,008</b>	\$425,486
Prepaid expenses and sundry assets	<b>60,005</b>	63,058
Exchangeable units of Primaris REIT	<b>55,111</b>	-
Accounts receivable - net of provision for expected credit loss of \$2,885 (2020 - \$15,135)	<b>6,130</b>	19,618
Restricted cash	<b>9,535</b>	7,732
Derivative instruments	<b>-</b>	3,194
	<b>\$321,789</b>	\$519,088

Mortgages receivable decreased by \$234.5 million from approximately \$425.5 million as at December 31, 2020 to approximately \$191.0 million as at December 31, 2021, primarily due H&R exercising its option to acquire 12.4 acres of vacant land in Jersey City, NJ in January 2021, resulting in the repayment of a U.S. \$146.2 million mortgage receivable.

As at December 31, 2021, the REIT held 13,344,071 exchangeable units of a subsidiary of Primaris REIT, exchangeable into 3,336,016 Primaris REIT units, to satisfy its obligations to its exchangeable unit holders. The exchangeable units were valued at \$55.1 million based on the pro rata net asset value of Primaris REIT. On January 4, 2022, the Board exercised its gross-up option in respect of the REIT's exchangeable units and the REIT was no longer obligated to deliver Primaris REIT units to its exchangeable unit holders. As a result, on January 10, 2022, the REIT exchanged its exchangeable units of a subsidiary of Primaris REIT into Primaris REIT units.

Accounts receivable decreased by \$13.5 million from approximately \$19.6 million as at December 31, 2020 to approximately \$6.1 million as at December 31, 2021, primarily due to the Primaris Spin-Off as accounts receivable from these properties was \$13.6 million as at December 31, 2020 compared to nil as at December 31, 2021. As at December 31, 2021, accounts receivable amounted to 0.6% of annual rentals from investment properties compared to 1.8% as at December 31, 2020. Refer to page 30 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**

	<b>December 31, 2021</b>	December 31, 2020
Debt to total assets at the REIT's proportionate share <sup>(1)(2)</sup>	<b>46.6%</b>	51.1%
Unencumbered assets <sup>(3)</sup> (in thousands of Canadian dollars)	<b>\$3,985,370</b>	\$3,666,464
Unsecured debt <sup>(3)</sup> (in thousands of Canadian dollars)	<b>\$2,045,125</b>	\$2,470,914
Unencumbered asset to unsecured debt coverage ratio <sup>(3)</sup>	<b>1.95</b>	1.48
Debt to Adjusted EBITDA at the REIT's proportionate share <sup>(2)</sup>	<b>7.2</b>	10.1
Weighted average interest rate of debt <sup>(1)</sup>	<b>3.7%</b>	3.6%
Weighted average term to maturity of debt (in years) <sup>(1)</sup>	<b>4.0</b>	3.5
Weighted average interest rate of debt at the REIT's proportionate share <sup>(1)(2)</sup>	<b>3.6%</b>	3.6%
Weighted average term to maturity of debt (in years) at the REIT's proportionate share <sup>(1)(2)</sup>	<b>4.5</b>	4.0

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

<sup>(2)</sup> These are non-GAAP ratios. Refer to the "Non-GAAP Measures" section of this MD&A.

<sup>(3)</sup> 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:

<b>(in thousands of Canadian dollars)</b>	<b>December 31, 2021</b>	December 31, 2020
Mortgages payable	<b>\$1,837,281</b>	\$3,623,652
Debentures payable	<b>1,545,125</b>	1,568,817
Unsecured term loans	<b>500,000</b>	688,029
Lines of credit	<b>12,500</b>	487,818
	<b>\$3,894,906</b>	\$6,368,316

<b>(in thousands of Canadian dollars)</b>	Mortgages Payable	Debentures Payable	Unsecured Term Loans	Lines of Credit	Total
Opening balance, January 1, 2021	\$3,623,652	\$1,568,817	\$688,029	\$487,818	\$6,368,316
Primaris Spin-Off	(580,000)	-	-	(143,000)	(723,000)
Scheduled amortization payments	(103,819)	-	-	-	(103,819)
Debt repayments and redemptions	(1,360,531)	(325,000)	(186,629)	(329,018)	(2,201,178)
New debt	359,184	298,622	-	-	657,806
Debt assumed by purchaser	(96,735)	-	-	-	(96,735)
Effective interest rate accretion	6,063	2,686	-	-	8,749
Change in foreign exchange	(10,533)	-	(1,400)	(3,300)	(15,233)
Closing balance, December 31, 2021	\$1,837,281	\$1,545,125	\$500,000	\$12,500	\$3,894,906

<b>Mortgages Payable</b>	Periodic Amortized Principal (\$000's)	Principal on Maturity (\$000's)	Total Principal (\$000's)	% of Total Principal	Weighted Average Interest Rate on Maturity
Future Mortgage Principal Payments					
2022	\$42,207	\$261,318	\$303,525	16.4	3.4%
2023	43,470	91,614	135,084	7.3	4.1%
2024	41,796	36,928	78,724	4.3	3.9%
2025	36,094	102,506	138,600	7.5	3.9%
2026	35,378	50,637	86,015	4.7	4.3%
Thereafter			1,105,221	59.8	
			1,847,169	100%	
Financing costs and mark-to-market adjustments arising on acquisitions <sup>(1)</sup>			(9,888)		
Total balance outstanding as at December 31, 2021			\$1,837,281		

<sup>(1)</sup> Mark-to-market adjustment represents the difference between the actual mortgages assumed on property acquisitions and the fair value of the mortgages at the date of purchase and is recognized in finance 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, 2021 bear interest at a weighted average rate of 4.0% (December 31, 2020 - 4.0%) and mature between 2022 and 2032 (December 31, 2020 – mature between 2021 and 2032). The weighted average term to maturity of the REIT's mortgages is 4.9 years (December 31, 2020 - 4.0 years). For a further discussion of liquidity refer to the "Funding of Future Commitments" section of this MD&A.

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				December 31, 2021	December 31, 2020
<b>Debentures Payable</b>					
(in thousands of Canadian Dollars)	<b>Maturity</b>	<b>Contractual Interest Rate</b>	<b>Effective Interest Rate</b>	<b>Principal Amount</b>	<b>Carrying Value</b>
Senior Debentures					<b>Carrying Value</b>
Series L Senior Debentures	November 12, 2021 <sup>(1)</sup>	2.92%	3.11%	\$ -	\$ -
Series O Senior Debentures	January 23, 2023	3.42%	3.44%	250,000	249,664
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	349,146
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	398,490
Series R Senior Debentures	June 2, 2026	2.91%	3.00%	250,000	249,021
Series S Senior Debentures <sup>(2)</sup>	February 19, 2027	2.63%	2.72%	300,000	298,804
		3.34%	3.43%	\$1,550,000	\$1,545,125
					\$1,568,817

(1) In November 2021, H&R redeemed all of its \$325.0 million principal amount of outstanding 2.923% Series L Senior Debentures originally maturing on May 6, 2022.

(2) In February 2021, H&R issued \$300.0 million principal amount of 2.633% Series S Senior Debentures maturing February 19, 2027.

	<b>Maturity Date</b>	<b>December 31, 2021</b>	December 31, 2020
<b>Unsecured Term Loans</b>			
(in thousands of Canadian Dollars)			
H&R unsecured term loan #1 <sup>(1)</sup>	March 17, 2021	\$ -	\$188,029
H&R unsecured term loan #2 <sup>(2)</sup>	March 7, 2024	250,000	250,000
H&R unsecured term loan #3 <sup>(3)</sup>	January 6, 2026	250,000	250,000
		<b>\$500,000</b>	<b>\$688,029</b>

(1) The total facility drawn in Canadian and U.S. dollars was repaid in March 2021. The REIT had 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, which settled in March 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.

<b>Lines of Credit</b>	<b>Maturity Date</b>	<b>Total Facility</b>	<b>Amount Drawn</b>	<b>Outstanding Letters of Credit</b>	<b>Available Balance</b>
<b>Revolving unsecured operating lines of credit:</b>					
H&R revolving unsecured line of credit	September 20, 2022	\$150,000	\$ -	\$ -	\$150,000
H&R revolving unsecured line of credit	December 14, 2026 <sup>(1)</sup>	750,000	-	(1,955)	748,045
H&R revolving unsecured letter of credit facility		60,000	-	(17,997)	42,003
Sub-total		960,000	-	(19,952)	940,048
<b>Revolving secured operating lines of credit<sup>(2)</sup></b>					
H&R and CrestPSP revolving secured line of credit	April 30, 2022	25,000	(12,500)	(105)	12,395
Sub-total		25,000	(12,500)	(105)	12,395
<b>December 31, 2021</b>		<b>\$985,000</b>	<b>(\$12,500)</b>	<b>(\$20,057)</b>	<b>\$952,443</b>
December 31, 2020		\$1,622,500	(\$487,818)	(\$31,797)	\$1,102,885

(1) In December 2021, the REIT secured a \$750.0 million unsecured line of credit from a syndicate of six Canadian banks for a five-year term and terminated four other lines of credit.

(2) 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.

**Debt to Adjusted EBITDA at the REIT's Proportionate Share**

The following table provides a reconciliation of Debt to Adjusted EBITDA at the REIT's proportionate share. This is a non-GAAP ratio, please refer to the "Non-GAAP Measures" section of this MD&A.

	December 31, 2021	December 31, 2020
<b>Debt:</b>		
Debt per the REIT's Financial Statements	\$3,894,906	\$6,368,316
Debt - REIT's proportionate share of equity accounted investments	1,026,836	1,060,927
	<b>4,921,742</b>	<b>7,429,243</b>
<b>Adjusted EBITDA:</b>		
<b>Per the REIT's Financial Statements:</b>		
Property operating income	661,582	663,666
Finance income	17,229	33,399
Trust Expenses	(27,936)	(14,297)
Adjustments:		
The Bow non-cash rental adjustment	(16,520)	-
Fair value adjustments to unit-based compensation	5,083	(15,992)
Straight-lining of contractual rent	(23,581)	(10,652)
<b>The REIT's proportionate share of equity accounted investments:</b>		
Property operating income	72,111	84,698
Finance income	16	302
Trust Expenses	(4,150)	(3,762)
Adjustments:		
Straight-lining of contractual rent	(83)	111
	<b>\$683,751</b>	<b>\$737,473</b>
Debt to Adjusted EBITDA at the REIT's proportionate share	<b>7.2</b>	<b>10.1</b>

Debt to Adjusted EBITDA at the REIT's proportionate share has decreased to 7.2x as at December 31, 2021 compared to 10.1x as at December 31, 2020, primarily due to a decrease in debt resulting from the Primaris Spin-Off on December 31, 2021 and the repayment of debt using the proceeds from the Bow and Bell Transaction in October 2021.

**Exchangeable Units**

As at December 31, 2021, certain of H&R's subsidiaries had exchangeable units outstanding which are puttable instruments where, upon redemption, H&R has a contractual obligation to issue Units and Primaris REIT units. 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 H&R and Primaris REIT 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 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.

<b>The following number of exchangeable units are issued and outstanding:</b>	Number of Exchangeable Units	Quoted Price of Units	Amounts per the REIT's Financial Statements (\$000's)
As at December 31, 2021 <sup>(1)</sup>	13,344,071	\$16.25	\$216,841
As at December 31, 2020	14,883,065	\$13.29	\$197,796

<sup>(1)</sup> The quoted price as at December 31, 2021 of \$16.25 per Unit reflects the trading of Units and Primaris REIT units together on a "due bill" basis until the close of markets on January 4, 2022.

On January 4, 2022, the Board exercised its gross-up option which provides that upon exchange of exchangeable units of the REIT, instead of delivering to exchangeable unit holders (i) Units and (ii) units of Primaris REIT, the REIT would deliver additional Units to such holders upon exchange, and the votes associated with the special voting units would reflect the number of votes associated with the Units deliverable upon exchange. Subsequent to this gross-



up, there were 13,344,071 exchangeable units outstanding, exchangeable into 18,279,546 Units including 9,500,000 special voting units, entitling the holder thereof to 13,013,698 votes.

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

**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 23.8% in 2021 (2020 - 23.5%).

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

<b>(in millions of Canadian dollars)</b>	<b>December 31, 2021</b>	December 31, 2020
<b>Deferred tax assets:</b>		
Net operating losses	<b>\$76.7</b>	\$73.3
Accounts payable and accrued liabilities	<b>0.9</b>	0.7
Other assets	<b>-</b>	2.8
	<b>77.6</b>	76.8
<b>Deferred liabilities:</b>		
Investment properties	<b>301.1</b>	303.0
Equity accounted investments	<b>127.0</b>	122.6
	<b>428.1</b>	425.6
<b>Deferred tax liability</b>	<b>(\$350.5)</b>	(\$348.8)

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 increased by \$1.7 million from \$348.8 million as at December 31, 2020 to \$350.5 million as at December 31, 2021 primarily due to fair value adjustments on real estate assets.

**Unitholders' Equity**

Unitholders' equity decreased by \$1.3 billion from approximately \$6.1 billion as at December 31, 2020 to approximately \$4.8 billion as at December 31, 2021. The decrease is primarily due to the Primaris Spin-Off totalling \$1.7 billion (further described below) as well as distributions to unitholders totaling \$227.3 million. This was partially offset by net income of \$597.9 million.

Primaris Spin-Off:

The following are the recognized amounts of identifiable assets and liabilities which were part of the Primaris Spin-Off during the year ended December 31, 2021:

**Non-cash items:**

Investment properties	\$2,403,350
Other assets	14,942
Mortgages payable	(580,000)
Line of Credit	(143,000)
Accounts payable	(37,197)

**Cash items:**

Cash and cash equivalents	5,636
Transaction costs	6,500

Net distribution to unitholders	\$1,670,231
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NCIB

On December 13, 2021, the REIT received approval from the TSX for the renewal of its NCIB allowing the REIT to purchase for cancellation up to a maximum of 14.0 million Units on the open market until the earlier of December 15, 2022 or the date on which the REIT purchased the maximum number of Units permitted under the NCIB. During the year ended December 31, 2021, the REIT did not purchase any Units for cancellation.

As at February 9 2022, the REIT purchased and cancelled 4,222,700 Units at a weighted average price of \$13.00 per Unit, for a total cost of \$54.9 million.

<b>Unitholders' Equity per Unit and NAV per Unit</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Unitholders' equity	<b>\$4,773,833</b>	\$6,071,391
Exchangeable units	<b>216,841</b>	197,796
Deferred tax liability	<b>350,501</b>	348,755
<b>Total</b>	<b>\$5,341,175</b>	\$6,617,942
Units outstanding (in thousands of Units)	<b>288,440</b>	286,863
Exchangeable units outstanding (in thousands of Units)	<b>13,344</b>	14,883
<b>Total (in thousands of Units)</b>	<b>301,784</b>	301,746
Unitholders' equity per Unit <sup>(1)</sup>	<b>\$16.55</b>	\$21.16
NAV per Unit <sup>(2)</sup>	<b>\$17.70</b>	\$21.93

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

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

**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	
	2021	2020	2021	2020
For each U.S. \$1.00	<b>\$1.25 CAD</b>	\$1.31 CAD	<b>\$1.25 CAD</b>	\$1.34 CAD

(in thousands of Canadian dollars)	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Property operating income:				
Rentals from investment properties	<b>\$265,794</b>	\$277,509	<b>\$1,065,380</b>	\$1,098,680
Property operating costs	<b>(95,953)</b>	(93,893)	<b>(403,798)</b>	(435,014)
	<b>169,841</b>	183,616	<b>661,582</b>	663,666
Net income (loss) from equity accounted investments	<b>89,298</b>	(44,697)	<b>125,649</b>	(16,986)
Finance costs - operations	<b>(61,922)</b>	(56,875)	<b>(236,878)</b>	(228,869)
Finance income	<b>3,014</b>	7,131	<b>17,229</b>	33,399
Trust expenses	<b>(4,780)</b>	(9,940)	<b>(27,936)</b>	(14,297)
Fair value adjustment on financial instruments	<b>50,804</b>	(44,084)	<b>43,859</b>	82,974
Fair value adjustment on real estate assets	<b>(13,005)</b>	69,960	<b>12,984</b>	(1,195,958)
Gain (loss) on sale of real estate assets, net of related costs	<b>3,192</b>	(62)	<b>6,957</b>	(2,229)
Net income (loss) before income taxes	<b>236,442</b>	105,049	<b>603,446</b>	(678,300)
Income tax (expense) recovery	<b>(28,247)</b>	6,595	<b>(5,539)</b>	53,741
Net income (loss)	<b>208,195</b>	111,644	<b>597,907</b>	(624,559)
Other comprehensive loss:				
Items that are or may be reclassified subsequently to net income (loss)	<b>(24,996)</b>	(146,307)	<b>(23,575)</b>	(86,662)
Total comprehensive income (loss) attributable to unitholders	<b>\$183,199</b>	(\$34,663)	<b>\$574,332</b>	(\$711,221)

Property operating income decreased by \$13.8 million and \$2.1 million, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to properties sold throughout 2021. For the year-ended December 31, 2021 compared to the respective 2020 period, this decrease due to properties sold was partially offset by higher bad debt expenses recorded during the onset of COVID-19 in 2020.

Net income (loss) before income taxes increased by \$131.4 million for the three months ended December 31, 2021 compared to the respective 2020 period primarily due to fair value adjustments within net income from equity accounted investments. Net income (loss) before income taxes increased by \$1.3 billion for the year ended December 31, 2021 compared to the respective 2020 period primarily due to fair value adjustments on real estate assets. Included in the year ended December 31, 2020 were negative fair value adjustments taken in Q1 2020 during the onset of COVID-19 as a result of challenging conditions in the retail landscape and energy sector volatility affecting office property market fundamentals in those markets.

**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, 2021. It excludes acquisitions, business combinations, dispositions, spin-offs, 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, 2021 (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.

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(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2021	2020	Change	2021	2020	Change
Rentals	\$265,794	\$277,509	(\$11,715)	\$1,065,380	\$1,098,680	(\$33,300)
Property operating costs (excluding bad debt expense)	(95,017)	(90,658)	(4,359)	(400,508)	(395,306)	(5,202)
Property operating income (excluding bad debt expense)	170,777	186,851	(16,074)	664,872	703,374	(38,502)
Bad debt expense	(936)	(3,235)	2,299	(3,290)	(39,708)	36,418
Property operating income	169,841	183,616	(13,775)	661,582	663,666	(2,084)
Adjusted for:						
Proportionate share of property operating income from equity accounted investments <sup>(1)</sup>	23,985	18,376	5,609	72,111	84,698	(12,587)
Straight-lining of contractual rent at the REIT's proportionate share <sup>(1)</sup>	(1,057)	(4,540)	3,483	(23,664)	(10,541)	(13,123)
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share <sup>(1)</sup>	(12,192)	(12,229)	37	-	-	-
Property operating income (cash basis) from Transactions at the REIT's proportionate share <sup>(1)</sup>	(39,959)	(54,007)	14,048	(182,284)	(180,841)	(1,443)
Same-Asset property operating income (cash basis) <sup>(2)</sup>	\$140,618	\$131,216	\$9,402	\$527,745	\$556,982	(\$29,237)

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

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

Property operating income decreased by \$13.8 million and \$2.1 million, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to properties sold throughout 2021. For the year-ended December 31, 2021 compared to the respective 2020 period, this decrease due to properties sold was partially offset by higher bad debt expenses recorded during the onset of COVID-19 in 2020.

Property operating income from equity accounted investments increased by \$5.6 million for the three months ended December 31, 2021 compared to the respective 2020 period, primarily due to an increase in occupancy at Jackson Park in New York during Q4 2021. Property operating income from equity accounted investments decreased by \$12.6 million for the year ended December 31, 2021 compared to the respective period, primarily due to Jackson Park's occupancy being temporarily negatively impacted by COVID-19.

Included in property operating income for the three months and year ended December 31, 2021 was \$34.6 million and \$134.1 million, respectively, relating to the Primaris Spin-Off. The Primaris Spin-Off has been classified as Transactions for the three months and year ended December 31, 2021 as well as the respective 2020 periods.

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 bad debt expense including the impact of COVID-19.

<b>Bad Debt Expense</b> <b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	2021	2020	Change	2021	2020	Change
Operating Segment:						
Office	\$382	\$721	(\$339)	\$1,124	\$1,348	(\$224)
Retail	526	2,549	(2,023)	1,210	38,270	(37,060)
Industrial	-	-	-	-	52	(52)
Residential	43	640	(597)	1,370	2,502	(1,132)
Bad debt expense per the REIT's proportionate share <sup>(1)</sup>	951	3,910	(2,959)	3,704	42,172	(38,468)
Less: equity accounted investments	(15)	(675)	660	(414)	(2,464)	2,050
Bad debt expense per the REIT's Financial Statements	\$936	\$3,235	(\$2,299)	\$3,290	\$39,708	(\$36,418)

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

H&R has recorded a bad debt expense for the three months ended December 31, 2021 of \$0.9 million and \$3.2 million for the three months ended December 31, 2020. Bad debt expense decreased by \$2.3 million and \$36.4 million, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to higher bad debt expenses recorded during the onset of COVID-19 in 2020.

**SEGMENTED INFORMATION**

**Operating Segments and Geographic Locations:**

H&R has four reportable operating segments (Office, Retail, 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 23 properties in Canada and 4 properties in select markets in the United States, aggregating 7.3 million square feet, excluding the Bow, at H&R's ownership interest, with an average lease term to maturity of 9.3 years as at December 31, 2021. The Office portfolio is leased on a long-term basis to creditworthy tenants, with 81.0% of office revenue from tenants with investment grade ratings. With long average lease terms resulting in less than 3.2% of square feet expiring in 2022, as well as 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 40 properties in Canada which includes grocery-anchored and single tenant properties as well as 15 automotive-tenanted retail properties and one multi-tenant retail property in the United States. In addition, the Retail segment also holds a 33.7% 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 40 properties in Canada and 252 properties in the United States comprising 6.1 million square feet, at H&R's ownership interest, with an average lease term to maturity of 8.8 years as at December 31, 2021.

The Industrial segment consists of 69 industrial properties in Canada and 3 properties in the United States comprising 8.6 million square feet, at H&R's ownership interest, with an average lease term to maturity of 5.6 years as at December 31, 2021.

The Residential segment consists of 23 residential properties in select markets in the United States comprising 8,305 residential rental units, at H&R's ownership interest, as at December 31, 2021. The investment policy of Lantower Residential is to acquire or develop class A properties in U.S. sunbelt 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.

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(in thousands of Canadian dollars)	Property operating income						Occupancy	
	Three months ended December 31			Year ended December 31			As at December 31	
	2021	2020	% Change	2021	2020	% Change	2021	2020
<b>Operating Segment:</b>								
Office	\$80,334	\$91,248	(12.0%)	\$337,966	\$358,961	(5.8%)	99.2%	99.6%
Retail	60,442	64,423	(6.2%)	232,544	218,047	6.6%	93.8%	90.3%
Industrial	14,082	15,854	(11.2%)	59,685	62,488	(4.5%)	97.6%	97.5%
Residential	38,968	30,467	27.9%	103,498	108,868	(4.9%)	95.2%	88.1%
The REIT's proportionate share <sup>(1)</sup>	193,826	201,992	(4.0%)	733,693	748,364	(2.0%)	96.6%	94.0%
Less: equity accounted investments	(23,985)	(18,376)	30.5%	(72,111)	(84,698)	(14.9%)	96.7%	89.6%
The REIT's Financial Statements	\$169,841	\$183,616	(7.5%)	\$661,582	\$663,666	(0.3%)	96.6%	94.5%
<b>Geographic Location:</b>								
Canada	\$113,000	\$126,755	(10.9%)	\$479,026	\$472,720	1.3%	98.2%	95.7%
United States	80,826	75,237	7.4%	254,667	275,644	(7.6%)	94.7%	90.6%
The REIT's proportionate share <sup>(1)</sup>	193,826	201,992	(4.0%)	733,693	748,364	(2.0%)	96.6%	94.0%
Less: equity accounted investments	(23,985)	(18,376)	30.5%	(72,111)	(84,698)	(14.9%)	96.7%	89.6%
The REIT's Financial Statements	\$169,841	\$183,616	(7.5%)	\$661,582	\$663,666	(0.3%)	96.6%	94.5%

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

The average exchange rate for the three months ended December 31, 2021 was \$1.25 for each U.S. \$1.00 (Q4 2020 - \$1.31). The average exchange rate for the year ended December 31, 2021 was \$1.25 for each U.S. \$1.00 (December 31, 2020 - \$1.34). Property operating income across all operating segments was negatively impacted by the weakening of the U.S. dollar for the three months and year ended December 31, 2021 compared to the respective 2020 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 12.0% and 5.8%, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to properties sold throughout 2021. Property operating income from the Bow for the three months and year ended December 31, 2021 was \$24.5 million and \$99.0 million, respectively. Excluding the non-cash rental income adjustment under IFRS 15, property operating income from the Bow for the three months and year ended December 31, 2021 was \$8.0 million and \$82.4 million, respectively. Property operating income from the Bell Office Campus for the three months and year ended December 31, 2021 was \$1.8 million and \$27.0 million, respectively.

Property operating income from retail properties decreased by 6.2% and increased by 6.6%, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods. Included in property operating income for the three months and year ended December 31, 2021 was \$34.6 million and \$134.1 million, respectively, relating to the Primaris Spin-Off. Excluding the properties included in the Primaris Spin-Off, as well as the impact of foreign exchange, property operating income increased by 5.0% and 7.2%, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to the lease-up of River Landing Commercial.

Property operating income from industrial properties decreased by 11.2% and 4.5%, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to 16 properties sold in 2021 compared to two properties sold in 2020.

Property operating income from residential properties increased by 27.9% for the three months ended December 31, 2021 compared to the respective 2020 period, primarily due to an increase in occupancy at Jackson Park in New York during Q4 2021. Property operating income from residential properties decreased by 4.9% for the year ended December 31, 2021 compared to the respective 2020 period, primarily due to Jackson Park's occupancy being temporarily negatively impacted by COVID-19. Excluding Jackson Park, property operating income from residential properties increased by 10.2% and 6.0%, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to an increase in rental revenue. Lantower Residential continues to see rental increases on renewals which, on a portfolio basis, excluding Jackson Park, have increased 7.5% from December 31, 2020 to December 31, 2021 and 11.8% from June 30, 2021 to December 31, 2021.

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

(in thousands of Canadian dollars)	Same-Asset property operating income (cash basis) <sup>(1)</sup>						Occupancy (same-asset)	
	Three months ended December 31			Year ended December 31			As at December 31	
	2021	2020	% Change	2021	2020	% Change	2021	2020
<b>Operating Segment:</b>								
Office	\$75,612	\$72,103	4.9%	\$289,815	\$302,708	(4.3%)	99.2%	99.5%
Retail	22,406	22,561	(0.7%)	88,974	92,993	(4.3%)	97.1%	97.5%
Industrial	12,465	12,902	(3.4%)	50,199	51,539	(2.6%)	97.4%	98.4%
Residential	30,135	23,650	27.4%	98,757	109,742	(10.0%)	95.2%	88.8%
The REIT's proportionate share (page 29)	\$140,618	\$131,216	7.2%	\$527,745	\$556,982	(5.2%)	97.3%	96.0%
<b>Geographic Location:</b>								
Ontario	\$34,337	\$33,446	2.7%	\$140,792	\$136,157	3.4%	97.6%	99.0%
Alberta	32,675	33,601	(2.8%)	133,758	134,198	(0.3%)	98.3%	96.5%
Other Canada	7,402	7,400	-%	29,522	28,998	1.8%	100.0%	100.0%
Total – Canada	74,414	74,447	-%	304,072	299,353	1.6%	98.1%	98.7%
United States	66,204	56,769	16.6%	223,673	257,629	(13.2%)	96.2%	92.7%
The REIT's proportionate share (page 29)	\$140,618	\$131,216	7.2%	\$527,745	\$556,982	(5.2%)	97.3%	96.0%
<b>United States in U.S. dollars:</b>								
Office	\$16,083	\$13,019	23.5%	\$49,528	\$60,136	(17.6%)	100.0%	100.0%
Retail	12,074	11,630	3.8%	47,735	47,568	0.4%	95.7%	96.4%
Industrial	699	701	(0.3%)	2,670	2,658	0.5%	100.0%	100.0%
Residential	24,107	18,125	33.0%	79,006	81,897	(3.5%)	95.2%	88.8%
U.S. total in U.S. dollars	\$52,963	\$43,475	21.8%	\$178,939	\$192,259	(6.9%)	96.2%	92.7%

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

The average exchange rate for the three months ended December 31, 2021 was \$1.25 for each U.S. \$1.00 (Q4 2020 - \$1.31). The average exchange rate for the year ended December 31, 2021 was \$1.25 for each U.S. \$1.00 (December 31, 2020 - \$1.34). 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 and year ended December 31, 2021 compared to the respective 2020 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 increased by 4.9% for the three months ended December 31, 2021 compared to the respective 2020 periods, primarily due to Hess Corporation ("Hess") having free rent for its premises in Houston, TX in December 2020. In November 2020, H&R completed a lease extension and amending agreement with Hess, whereby Hess received a seven-month free rent period (commencing December 2020) for its premises in Houston, TX, ("Hess Lease Amendment") under which Hess 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. Same-Asset property operating income (cash basis) from office properties decreased by 4.3% for the year ended December 31, 2021 compared to the respective 2020 period, primarily due to the Hess Lease Amendment. Excluding the impact of the Hess Lease Amendment, Same-Asset property operating income (cash basis) increased by 2.3%, primarily due to contractual rental escalations.

Same-Asset property operating income (cash basis) from retail properties decreased by 0.7% and 4.3%, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to the weakening of the U.S. dollar noted above. Excluding the impact of foreign exchange, Same-Asset property operating income (cash basis) from retail properties increased by 2.2% and 0.3%, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods.

Same-Asset property operating income (cash basis) from industrial properties decreased by 3.4% and 2.6%, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to a vacancy at an Oakville, ON industrial property. Excluding this property, Same-

Asset property operating income (cash basis) from industrial properties increased by 0.4% and 1.2%, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods.

Same-Asset property operating income (cash basis) from residential properties in U.S. dollars increased by 33.0% for the three months ended December 31, 2021 compared to the respective 2020 period, primarily due to an increase in occupancy at Jackson Park in New York during Q4 2021. Same-Asset property operating income (cash basis) from residential properties in U.S. dollars decreased by 3.5% for the year ended December 31, 2021 compared to the respective 2020 period, primarily due to Jackson Park's occupancy being temporarily negatively impacted by COVID-19. Excluding Jackson Park, Same-Asset property operating income (cash basis) from residential properties in U.S. dollars increased by 9.0% and 7.8%, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to an increase in rental revenue. Lantower Residential continues to see rental increases on renewals which, on a portfolio basis, excluding Jackson Park, have increased 7.5% from December 31, 2020 to December 31, 2021 and 11.8% from June 30, 2021 to December 31, 2021.

## NET INCOME, FFO AND AFFO FROM EQUITY ACCOUNTED INVESTMENTS<sup>(1)</sup>

The following table provides a breakdown of H&R's net income 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	
	2021	2020	2021	2020
Rentals from investment properties	\$30,316	\$25,800	\$106,990	\$119,802
Property operating costs	(6,331)	(7,424)	(34,879)	(35,104)
<b>Property operating income</b>	<b>23,985</b>	<b>18,376</b>	<b>72,111</b>	<b>84,698</b>
Net income from equity accounted investments	159	135	94	479
Finance cost - operations	(9,115)	(9,585)	(36,302)	(39,447)
Finance income	3	54	16	302
Trust expenses	(2,021)	(659)	(4,150)	(3,762)
Fair value adjustment on financial instruments	393	371	1,282	(1,458)
Fair value adjustment on real estate assets	76,033	(53,209)	72,729	(55,305)
Gain (loss) on sale of real estate assets	97	(4)	20,874	(1,815)
Income tax (expense) recovery	(23)	(8)	(104)	118
Non-controlling interest	(213)	(168)	(901)	(796)
<b>Net income (loss) from equity accounted investments</b>	<b>89,298</b>	<b>(44,697)</b>	<b>125,649</b>	<b>(16,986)</b>
Realty taxes in accordance with IFRIC 21	(1,178)	(1,160)	-	-
Fair value adjustments on financial instruments and real estate assets	(76,426)	52,838	(74,011)	56,763
(Gain) loss on sale of real estate assets	(97)	4	(20,874)	1,815
Deferred income tax expense	-	-	-	10
Incremental leasing costs	-	151	255	604
Notional interest capitalization <sup>(2)</sup>	562	722	2,413	2,930
<b>FFO from equity accounted investments</b>	<b>12,159</b>	<b>7,858</b>	<b>33,432</b>	<b>45,136</b>
Straight-lining of contractual rent	204	(243)	(83)	111
Rent amortization of tenant inducements	262	274	1,040	1,125
Capital expenditures	(1,711)	(279)	(3,992)	(1,894)
Leasing expenses and tenant inducements	(109)	(243)	(850)	(779)
Incremental leasing costs	-	(151)	(255)	(604)
<b>AFFO from equity accounted investments</b>	<b>\$10,805</b>	<b>\$7,216</b>	<b>\$29,292</b>	<b>\$43,095</b>

<sup>(1)</sup> Each of these line items represent the REIT's proportionate share of equity accounted investments which are reconciled to net income 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 Measures" section of this MD&A.

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



Property operating income from equity accounted investments increased by \$5.6 million for the three months ended December 31, 2021 compared to the respective 2020 period, primarily due to an increase in occupancy at Jackson Park in New York during Q4 2021. Property operating income from equity accounted investments decreased by \$12.6 million for the year ended December 31, 2021 compared to the respective period, primarily due to Jackson Park's occupancy being temporarily negatively impacted by COVID-19.

Net income from equity accounted investments increased by \$134.0 million and \$142.6 million, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods primarily due to the following: (i) fair value adjustment to Jackson Park in Q4 2021 as a result of a significant increase in occupancy and higher rents offset by a fair value decrease in Q4 2020; and (ii) fair value adjustment to The Pearl in Q4 2021, a property under development in Austin, TX, currently classified as held for sale. Net income from equity accounted investments for the year ended December 31, 2021 compared to the respective 2020 period further increased due to the gain on sale earned from the dispositions of The Exchange at Bayfront and Esterra Park in Q3 2021, partially offset by the decrease from Jackson Park noted above.

FFO from equity accounted investments increased by \$4.3 million and decreased by \$11.7 million, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods primarily due to Jackson Park 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.

<b>Finance Costs</b> <b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	2021	2020	Change	2021	2020	Change
Finance costs – operations:						
Contractual interest on mortgages payable	<b>(\$23,556)</b>	(\$37,014)	\$13,458	<b>(\$124,203)</b>	(\$150,354)	\$26,151
Contractual interest on debentures payable	<b>(17,553)</b>	(12,180)	(5,373)	<b>(62,244)</b>	(41,379)	(20,865)
Contractual interest on unsecured term loans	<b>(4,444)</b>	(5,688)	1,244	<b>(18,553)</b>	(22,851)	4,298
Bank interest and charges on lines of credit	<b>(1,476)</b>	(2,918)	1,442	<b>(7,363)</b>	(16,303)	8,940
Effective interest rate accretion	<b>(2,951)</b>	(1,365)	(1,586)	<b>(7,881)</b>	(4,625)	(3,256)
Accretion finance expense on the Bow deferred revenue	<b>(8,944)</b>	-	(8,944)	<b>(8,944)</b>	-	(8,944)
Exchangeable unit distributions	<b>(3,636)</b>	(2,567)	(1,069)	<b>(11,088)</b>	(13,966)	2,878
	<b>(62,560)</b>	(61,732)	(828)	<b>(240,276)</b>	(249,478)	9,202
Capitalized interest	<b>638</b>	4,857	(4,219)	<b>3,398</b>	20,609	(17,211)
	<b>(61,922)</b>	(56,875)	(5,047)	<b>(236,878)</b>	(228,869)	(8,009)
Finance income	<b>3,014</b>	7,131	(4,117)	<b>17,229</b>	33,399	(16,170)
Fair value adjustment on financial instruments	<b>50,804</b>	(44,084)	94,888	<b>43,859</b>	82,974	(39,115)
	<b>(\$8,104)</b>	(\$93,828)	\$85,724	<b>(\$175,790)</b>	(\$112,496)	(\$63,294)

The decrease in contractual interest on mortgages payable of \$13.5 million and \$26.2 million, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods is primarily due to the following: (i) mortgages repaid upon maturity and sale; (ii) the weakening of the U.S. dollar; and (iii) mortgages being refinanced at lower interest rates.

The increase in contractual interest on debentures payable of \$5.4 million and \$20.9 million, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods is primarily due to the issuance of new debentures totalling \$950.0 million throughout 2020 and 2021, as well as a prepayment penalty of \$3.3 million incurred when H&R prepaid the Series L Senior Debentures in November 2021, originally maturing in May 2022. This was partially offset by the repayment of debentures totalling \$662.5 million throughout 2020 and 2021.

The decrease in contractual interest on unsecured term loans of \$1.2 million and \$4.3 million, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods is primarily due to H&R repaying the \$200.0 million unsecured term loan in March 2021.

The decrease in bank interest and charges on lines of credit of \$1.4 million and \$8.9 million, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods is primarily due to H&R repaying lines of credit with the proceeds from debenture issuances and dispositions. Included in the three months and year ended December 31, 2021 is \$0.6 million relating to debt prepayment costs incurred as part of terminating various lines of credit.

The accretion finance expense on the Bow deferred revenue of \$8.9 million for the three months and year ended December 31, 2021 is due to the proceeds from the sale of the Bow being amortized over the term of the lease consisting of principal and interest as the sale transaction did not meet the criteria of a transfer of control under IFRS 15. This is further discussed on page 9 of this MD&A.

The increase in exchangeable unit distributions of \$1.1 million for the three months ended December 31, 2021 compared to the respective 2020 period is primarily due to the \$0.10 special cash distribution declared in November 2021, payable to all exchangeable unitholders as at December 31, 2021. The decrease in exchangeable unit distributions of \$2.9 million for the year ended December 31, 2021 compared to the respective 2020 period is primarily due to H&R decreasing its monthly distributions from \$0.115 per Unit to \$0.0575 per Unit effective May 2020, partially offset by the increase from the special distribution noted above.

The decrease in capitalized interest of \$4.2 million and \$17.2 million, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods is primarily due to River Landing, which achieved substantial completion on the commercial portion in Q4 2020 and on the residential towers in Q1 and Q2 2021.

The decrease in finance income of \$4.1 million and \$16.2 million, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods is primarily due to the repayment of a U.S. \$146.2 million mortgage receivable secured against 12.4 acres of vacant land in Jersey City, NJ in January 2021.

The fair value adjustment on financial instruments of \$50.8 million and \$43.9 million, respectively, for the three months and year ended December 31, 2021 is primarily due to the following: (i) the unrealized gain (loss) on derivative instruments of (\$1.6 million) and \$27.9 million, respectively, which is further described on page 43 of this MD&A; (ii) a realized gain on settlement of derivatives of \$5.7 million relating to incentive units settled in December 2021; and (iii) the gain (loss) on fair value of exchangeable units of \$46.8 million and \$10.8 million, respectively, which are fair valued at the end of each reporting period based on the quoted price of Units on the TSX.

### Trust Expenses

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2021	2020	Change	2021	2020	Change
Other expenses	<b>(\$5,189)</b>	(\$5,873)	\$684	<b>(\$19,711)</b>	(\$24,638)	\$4,927
Unit-based compensation (expense) recovery	<b>409</b>	(4,067)	4,476	<b>(8,225)</b>	10,341	(18,566)
Trust expenses	<b>(\$4,780)</b>	(\$9,940)	\$5,160	<b>(\$27,936)</b>	(\$14,297)	(\$13,639)

Other expenses decreased by \$0.7 million and \$4.9 million, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to higher third-party management fees earned, partially offset by higher expenses incurred with the continued expansion of Lantower Residential. Other expenses also decreased for the year ended December 31, 2021 compared to the respective 2020 period due to costs incurred for abandoned transactions and an allowance for credit loss on mortgages receivable as a result of COVID-19 in 2020. Trust expenses relating to the Primaris Spin-Off were \$2.6 million for the year ended December 31, 2021 compared to (\$0.6 million) for the year ended December 31, 2020.

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 \$0.1 million and (\$2.6 million), respectively, for the three months ended December 31, 2021 and 2020 as well as (\$5.1 million) and \$16.0 million, respectively, for the year ended December 31, 2021 and 2020. The fair value adjustment to unit-based compensation for the year ended December 31, 2021 was an expense of (\$5.1 million) which was due to H&R's Unit price increasing from \$13.29 as at December 31, 2020 to \$16.25 as at December 31, 2021. The fair value adjustment to unit-based compensation for the year ended December 31, 2020 was a recovery of \$16.0 million which 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**

<b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	2021	2020	Change	2021	2020	Change
Operating Segment:						
Office	<b>(\$19,733)</b>	(\$6,049)	(\$13,684)	<b>(\$284,302)</b>	(\$711,829)	\$427,527
Retail	<b>(20,971)</b>	(15,190)	(5,781)	<b>202,795</b>	(687,234)	890,029
Industrial	<b>15,062</b>	95,392	(80,330)	<b>45,198</b>	107,920	(62,722)
Residential	<b>88,670</b>	(57,402)	146,072	<b>122,022</b>	39,880	82,142
Fair value adjustment on real estate assets per the REIT's proportionate share <sup>(1)</sup>	<b>63,028</b>	16,751	46,277	<b>85,713</b>	(1,251,263)	1,336,976
Less: equity accounted investments	<b>(76,033)</b>	53,209	(129,242)	<b>(72,729)</b>	55,305	(128,034)
Fair value adjustment on real estate assets per the REIT's Financial Statements	<b>(\$13,005)</b>	\$69,960	(\$82,965)	<b>\$12,984</b>	(\$1,195,958)	\$1,208,942

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

H&R records its real estate assets at fair value, and reviews values of each property on a quarterly basis. 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.

At the onset of COVID-19 in Q1 2020, H&R recorded significant fair value adjustments reflecting two trends: (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.

In Q3 2021, which impacted the year ended December 31, 2021, H&R recorded fair value adjustments to reflect the ongoing uncertainty surrounding the long-term implications of COVID-19 as many workplaces have transitioned to a virtual/hybrid work model which has impacted office properties. The fair value of H&R's office portfolio was reduced by an aggregate of \$194.4 million. In addition to H&R's regular quarterly fair value process, 10 office properties were appraised by an external independent appraiser which comprised 55.6% of the value of H&R's office properties, excluding the Bow.

In Q3 2021, which impacted the year ended December 31, 2021, the fair value of H&R's retail portfolio increased by an aggregate of \$137.9 million. All of the 27 properties contributed to Primaris REIT were appraised by an external independent appraiser in Q3 2021. The increase in the retail fair value was primarily attributed to the value ascribed to Dufferin Grove, the future development project at Dufferin Mall in Toronto, ON. H&R does not normally recognize any value for future potential development projects but in this case, the rezoning is almost complete and the value was agreed to by HOOPP as part of the Primaris Spin-Off.

**Gain (Loss) on Sale of Real Estate Assets**

<b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	2021	2020	Change	2021	2020	Change
Gain (loss) on sale of real estate assets	<b>\$3,192</b>	(\$62)	\$3,254	<b>\$6,957</b>	(\$2,229)	\$9,186

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

<b>Income Tax (Expense) Recovery</b> <b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	2021	2020	Change	2021	2020	Change
Income tax computed at the Canadian statutory rate of nil applicable to H&R for 2021 and 2020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current U.S. income taxes	(290)	(17)	(273)	(1,081)	(259)	(822)
Deferred income taxes (expense) recoveries applicable to U.S. Holdco	(27,957)	6,612	(34,569)	(4,458)	54,000	(58,458)
<b>Income tax (expense) recovery in the determination of net income (loss)</b>	<b>(\$28,247)</b>	<b>\$6,595</b>	<b>(\$34,842)</b>	<b>(\$5,539)</b>	<b>\$53,741</b>	<b>(\$59,280)</b>

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.

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 tax expense increased by \$34.6 million and \$58.5 million for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to fair value adjustments on real estate assets.

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, 2021, H&R had net deferred tax liabilities of \$350.5 million (December 31, 2020 - \$348.8 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**

H&R presents its consolidated FFO and AFFO calculations in accordance with the January 2022 guidance REALPAC Funds Real Property Association of Canada (REALPAC) *White Paper on Funds From Operations and Adjusted Funds From Operations for IFRS* except for the Bow non-cash rental and accretion adjustment which is further explained on page 2 of this MD&A.

**FFO AND AFFO**

<b>(in thousands of Canadian dollars except per Unit amounts)</b>	Three Months Ended December 31		Year ended December 31	
	2021	2020	2021	2020
<b>Net income (loss) per the REIT's Financial Statements</b>	<b>\$208,195</b>	\$111,644	<b>\$597,907</b>	(\$624,559)
Realty taxes in accordance with IFRIC 21	(11,014)	(11,069)	-	-
FFO adjustments from equity accounted investments (page 33)	(77,139)	52,555	(92,217)	62,122
Exchangeable unit distributions	3,636	2,567	11,088	13,966
Fair value adjustments on financial instruments and real estate assets	(37,799)	(25,876)	(56,843)	1,112,984
Fair value adjustment to unit-based compensation	(64)	2,561	5,083	(15,992)
(Gain) loss on sale of real estate assets	(3,192)	62	(6,957)	2,229
Deferred income taxes expense (recoveries) applicable to U.S. Holdco	27,957	(6,612)	4,458	(54,000)
Incremental leasing costs	1,568	1,566	6,422	6,346
The Bow non-cash rental and accretion adjustment	(7,576)	-	(7,576)	-
<b>FFO<sup>(1)</sup></b>	<b>\$104,572</b>	\$127,398	<b>\$461,365</b>	\$503,096
Straight-lining of contractual rent	(1,261)	(4,297)	(23,581)	(10,652)
Rent amortization of tenant inducements	1,149	1,175	4,557	2,661
Capital expenditures	(18,574)	(14,479)	(47,089)	(52,980)
Leasing expenses and tenant inducements	(6,737)	(40,309)	(18,865)	(49,927)
Incremental leasing costs	(1,568)	(1,566)	(6,422)	(6,346)
AFFO adjustments from equity accounted investments (page 33)	(1,354)	(642)	(4,140)	(2,041)
<b>AFFO<sup>(1)</sup></b>	<b>\$76,227</b>	\$67,280	<b>\$365,825</b>	\$383,811
Weighted average number of Units and exchangeable units (in thousands of Units) <sup>(2)</sup>	301,779	301,746	301,772	301,687
Diluted weighted average number of Units and exchangeable units (in thousands of Units) <sup>(2)(3)</sup>	302,612	302,292	302,605	302,234
FFO per basic Unit (adjusted for conversion of exchangeable units) <sup>(4)</sup>	\$0.347	\$0.422	\$1.529	\$1.668
FFO per diluted Unit <sup>(4)</sup>	\$0.346	\$0.421	\$1.525	\$1.665
AFFO per basic Unit (adjusted for conversion of exchangeable units) <sup>(4)</sup>	\$0.253	\$0.223	\$1.212	\$1.272
AFFO per diluted Unit <sup>(4)</sup>	\$0.252	\$0.223	\$1.209	\$1.270
Cash Distributions per Unit <sup>(5)</sup>	\$0.272	\$0.172	\$0.790	\$0.920
Payout ratio as a % of FFO <sup>(4)(5)</sup>	77.1%	40.5%	51.6%	55.1%
Payout ratio as a % of AFFO <sup>(4)(5)</sup>	108.0%	77.3%	65.3%	72.4%

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

(2) For both the three months and year ended December 31, 2021, included in the weighted average and diluted weighted average number of Units are exchangeable units of 13,350,995 and 14,112,090, respectively. 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.

(3) For the three months and year ended December 31, 2021, included in the determination of diluted FFO and AFFO with respect to H&R's Unit Option Plan and Incentive Unit Plan are 832,976 Units. 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.

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

(5) Distributions for the three months and year ended December 31, 2021, include the special cash distribution of \$0.10 per Unit declared on November 15, 2021, payable to all unitholders on record as at December 31, 2021. This distribution was paid on January 12, 2022 and has been included in the calculations of Payout ratio as a % of FFO and AFFO.

FFO decreased by \$22.8 million and \$41.7 million, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to a decrease in property operating income as a result of properties sold throughout 2021. In addition, FFO for the year ended December 31, 2021 compared to the respective 2020 further decreased due to lower finance income, partially offset by lower trust expenses.

AFFO increased by \$8.9 million for the three months ended December 31, 2021 compared to the respective 2020 period, primarily due to a decrease in capital expenditures, partially offset by the decrease in FFO noted above. AFFO decreased by \$18.0 million for the year ended December 31, 2021 compared to the respective 2020 period, primarily due to the decrease in FFO noted above, partially offset by a decrease in capital expenditure and leasing expenses.

FFO from the Primaris Spin-Off was \$30.2 million and \$116.4 million, respectively, for the three months and year ended December 31, 2021. AFFO from the Primaris Spin-Off was \$20.4 million and \$87.8 million, respectively, for the three months and year ended December 31, 2021

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

<b>(in thousands of Canadian dollars)</b>	Three months ended December 31			Year ended December 31		
	<b>2021</b>	2020	Change	<b>2021</b>	2020	Change
Lease termination fees	<b>\$63</b>	\$338	(\$275)	<b>\$3,721</b>	\$4,672	(\$951)
Adjustment to straight-lining of contractual rent	<b>(132)</b>	-	(132)	<b>(132)</b>	-	(132)
Bad debt expense	<b>(951)</b>	(3,910)	2,959	<b>(3,704)</b>	(42,172)	38,468
Debt prepayment costs	<b>(4,702)</b>	(86)	(4,616)	<b>(4,768)</b>	(86)	(4,682)
Costs incurred for abandoned transactions and an allowance for credit loss on mortgages receivable as a result of COVID-19	<b>(355)</b>	(165)	(190)	<b>(355)</b>	(5,785)	5,430
	<b>(\$6,077)</b>	(\$3,823)	(\$2,254)	<b>(\$5,238)</b>	(\$43,371)	\$38,133

Excluding the above items, FFO would have been \$110.6 million for the three months ended December 31, 2021 (Q4 2020 - \$131.2 million) and \$0.37 per basic Unit (Q4 2020 - \$0.43 per basic Unit). For the year ended December 31, 2021, FFO would have been \$466.6 million (Q4 2020 - \$546.5 million) and \$1.55 per basic Unit (Q4 2020 - \$1.81 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		
	2021	2020	Change	2021	2020	Change
<b>Office:</b>						
Capital expenditures	\$5,777	\$9,238	(\$3,461)	\$16,399	\$27,971	(\$11,572)
Leasing expenses and tenant inducements	271	39,314	(39,043)	3,393	45,313	(41,920)
<b>Retail:</b>						
<i>Primaris:</i>						
Capital expenditures	4,494	2,932	1,562	11,617	11,304	313
Leasing expenses and tenant inducements	3,392	1,476	1,916	9,603	3,382	6,221
<i>Other Retail:</i>						
Capital expenditures	1,684	661	1,023	4,580	2,276	2,304
Leasing expenses and tenant inducements	256	388	(132)	1,447	1,296	151
<b>Industrial:</b>						
Capital expenditures	244	400	(156)	2,683	2,434	249
Leasing expenses and tenant inducements	2,927	(626)	3,553	5,272	715	4,557
<b>Residential:</b>						
Capital expenditures	8,086	1,527	6,559	15,802	10,889	4,913
Leasing expenses and tenant inducements	-	-	-	-	-	-
Total at the REIT's proportionate share <sup>(1)</sup>	27,131	55,310	(28,179)	70,796	105,580	(34,784)
Less: equity accounted investments	(1,820)	(522)	(1,298)	(4,842)	(2,673)	(2,169)
Total per the REIT's Financial Statements <sup>(2)</sup>	\$25,311	\$54,788	(\$29,477)	\$65,954	\$102,907	(\$36,953)

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

(2) 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, 2021 was a washroom upgrade at an Ottawa, ON office property totalling \$1.5 million and \$5.0 million, respectively. The largest capital expenditures from the Office segment for the three months and year ended December 31, 2020 included: (i) a generator upgrade at a Toronto, ON office property totalling \$1.7 million and \$8.9 million, respectively; (ii) a full roof replacement at a Calgary, AB office property totalling nil and \$1.8 million, respectively; and (iii) a chiller replacement at a Calgary, AB office property totalling \$1.1 million and \$1.5 million, respectively.

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.

The largest capital expenditures from Primaris for the three months and year ended December 31, 2021 included: (i) backfilling a former Mark's location with a new Staples store at a Guelph, ON retail property totalling \$0.1 million and \$2.4 million, respectively and (ii) a food court renovation at a Guelph, ON retail property totalling \$0.4 million and \$2.4 million, respectively (Q4 2020 - \$2.1 million, December 31, 2020 - \$7.0 million).

Tenant expenditures from the Primaris for the three months and year ended December 31, 2021 included a \$1.9 million tenant allowance paid as part of a lease renewal and expansion of an anchor tenant at an Alberta enclosed shopping centre.

The largest capital expenditure from the Industrial segment for the three months and year ended December 31, 2021 was a roof replacement at a Calgary, AB industrial property totalling \$0.2 million and \$1.2 million, respectively.

Tenant expenditures from the Industrial segment for the three months and year ended December 31, 2021 included a \$0.8 million leasing expenditure paid to a single tenant as part of a new lease in Whitby, ON as well as a \$0.8 million leasing expenditure paid to a single tenant as part of a new lease in Philadelphia, PA. For the year ended December 31, 2021, tenant expenditures from the Industrial segment also included a \$1.5 million leasing expenditure paid to a single tenant as part of a lease renewal at six properties located in Western Canada.

The largest capital expenditures from the Residential segment for the three months and year ended December 31, 2021 were largely related to Lantower's "Value Add" initiatives, specifically: (i) smart-technology upgrades at 15 residential properties totalling \$2.9 million and \$3.8 million, respectively; (ii) an exterior refresh, including a roof replacement and exterior painting at an Orlando, FL property totalling \$1.7 million; and (iii) re-landscaping and upgrade of the swimming pool at a San Antonio, TX property totalling \$0.1 million and \$0.5 million, respectively.

## 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, 2021	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2019
Cash provided by operations	\$117,484	\$452,107	\$426,928	\$418,039
Net income (loss)	208,195	597,907	(624,559)	340,289
Distributions <sup>(1)</sup>	78,599	227,312	263,572	394,181
Excess cash provided by operations over total distributions	38,885	224,795	163,356	23,858
Excess (shortfall) of net income (loss) over total distributions	129,596	370,595	(888,131)	(53,892)

<sup>(1)</sup> Distributions for the three months and year ended December 31, 2021, include the special cash distribution of \$0.10 per Unit declared on November 15, 2021, payable to all unitholders on record as at December 31, 2021. This distribution was paid on January 12, 2022. Distributions for the three months and year ended December 31, 2021 exclude the Primaris Spin-Off.

Cash provided by operations exceeded total distributions for all periods noted above. Distributions exceeded net income (loss) for the years ended December 31, 2020 and 2019 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 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 28 of this MD&A.

### Major Cash Flow Components

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2021	2020	Change	2021	2020	Change
Cash and cash equivalents, beginning of period	\$52,364	\$54,436	(\$2,072)	\$62,859	\$48,640	\$14,219
Cash flows from operations	117,484	117,052	432	452,107	426,928	25,179
Cash flows from (used for) investing	1,192,142	(240,906)	1,433,048	1,495,814	(183,244)	1,679,058
Cash flows from (used for) financing	(1,237,849)	132,277	(1,370,126)	(1,886,639)	(229,465)	(1,657,174)
Cash and cash equivalents, end of period	\$124,141	\$62,859	\$61,282	\$124,141	\$62,859	\$61,282

Cash flows from operations increased by \$25.2 million for the year ended December 31, 2021 compared to the respective 2020 periods, primarily due to an increase in non-cash working capital.

Cash flows from investing increased by \$1.4 billion and \$1.7 billion, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due higher net proceeds on disposition of real estate assets, including the sale of the Bow and Bell Transaction in Q4 2021.

Cash flows used for financing decreased by \$1.4 billion and \$1.7 billion, respectively, for the three months and year ended December 31, 2021 compared to the respective 2020 periods, primarily due to the repayment of debt.

### Capital Resources

As at December 31, 2021, H&R had cash on hand of \$124.1 million and amounts available under its lines of credit totalling \$952.4 million. Subject to market conditions, management expects to be able to meet all of the REIT's ongoing contractual obligations. In addition, the REIT has \$7.9 million available under its secured construction facilities held through equity accounted investments as at December 31, 2021. As at December 31, 2021, the REIT is not in default or arrears on any of its obligations including interest or principal payments on debt and any debt covenant.



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As at December 31, 2021, H&R had 104 unencumbered properties (including properties under development), with a fair value of approximately \$4.0 billion. Also, due to H&R's 25-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, 2021, H&R had 24 properties valued at approximately \$382.3 million which are encumbered with mortgages totalling \$83.0 million. In this pool of assets, the average loan to value is 21.7%, the minimum loan to value is 3.3% and the maximum loan to value is 29.8%. The weighted average remaining term to maturity of this pool of mortgages is 2.4 years.

The following is a summary of material contractual obligations including payments due as at December 31, 2021 for the next five years and thereafter:

Contractual Obligations <sup>(1)</sup> (in thousands of Canadian dollars)	Payments Due by Period				Total
	2022	2023- 2024	2025- 2026	2027 and thereafter	
Mortgages payable	\$303,525	\$213,808	\$224,615	\$1,105,221	\$1,847,169
Senior debentures	-	600,000	650,000	300,000	1,550,000
Unsecured term loans	-	250,000	250,000	-	500,000
Lines of credit	12,500	-	-	-	12,500
Lease liability <sup>(2)</sup>	1,126	2,320	2,414	174,306	180,166
Property Acquisitions	29,925	-	-	-	29,925
<b>Total contractual obligations</b>	<b>\$347,076</b>	<b>\$1,066,128</b>	<b>\$1,127,029</b>	<b>\$1,579,527</b>	<b>\$4,119,760</b>

(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 Negative trend as at December 31, 2021. This is a rating achieved by only four Canadian REITs (including H&R) as at December 31, 2021. 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, 2021, H&R had cash on hand of \$124.1 million, \$952.4 million available under its unused lines of credit and an unencumbered property pool of approximately \$4.0 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
2022	22	\$223,555	3.9%	\$664,011	34%
2023	9	91,614	4.1%	221,220	41%
2024	4	36,928	3.9%	133,226	28%
2025	9	102,506	3.9%	230,974	44%
2026	5	50,637	4.3%	213,850	24%
	49	\$505,240	4.0%	\$1,463,281	35%

**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, 2021, H&R has outstanding letters of credit totalling \$20.1 million (December 31, 2020 - \$31.8 million), including \$1.9 million (December 31, 2020 - \$12.5 million) which has been pledged as security for certain mortgages payable. The letters of credit may be secured by certain investment properties.

H&R has co-owners and partners in various projects. As a general 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, 2021, such guarantees amounted to \$121.7 million expiring between 2022 and 2023 (December 31, 2020 - \$177.2 million, expiring between 2021 and 2023), 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.

The REIT continues to guarantee certain debt in connection with the Primaris Spin-Off, and will remain liable until such debts are extinguished or the lenders agree to release the REIT's guarantees. As at December 31, 2021, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is \$580.0 million (December 31, 2020 - nil), which expires between 2022 and 2030. In addition, the REIT provides guarantees on behalf of the co-owners of certain of Primaris REIT's properties. As at December 31, 2021, the REIT issued guarantees amounting to \$111.1 million, which expire between 2022 and 2027 (December 31, 2020 - \$113.0 million, which expire between 2021 and 2027). There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in the 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, 2021. This strategy manages risks related to foreign exchange rates on transactions that will occur in the future.

During 2020 and 2021, H&R had the following swaps outstanding:

(in thousands of Canadian dollars)	Maturity	Fair value asset (liability)*		Net unrealized gain (loss) on derivative instruments	
		December 31 2021	December 31 2020	December 31 2021	December 31 2020
Debenture interest rate swap	(1) February 13, 2020	\$ -	\$ -	\$ -	\$404
Term loan interest rate swap	(2) March 17, 2021	-	(469)	469	(1,221)
Term loan interest rate swap	(3) May 7, 2030	(4,157)	(20,797)	16,640	(18,020)
Term loan interest rate swap	(4) January 6, 2026	(7,060)	(21,023)	13,963	(14,852)
Incentive units swaps	(5) 2021	-	3,194	(3,194)	3,194
		<b>(\$11,217)</b>	<b>(\$39,095)</b>	<b>\$27,878</b>	<b>(\$30,495)</b>

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

(2) To fix the interest rate at 2.56% per annum for the U.S. \$130.0 million term loan, which settled in March 2021.

(3) 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.

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

(5) To fix the payout on incentive units, which were settled in December 2021. The REIT realized a gain on settlement of \$5.7 million.

\* 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:

<b>(in thousands of Canadian dollars except per Unit amounts)</b>	<b>Year Ended December 31, 2021</b>	Year Ended December 31, 2020	Year Ended December 31, 2019
Rentals from investment properties	<b>\$1,065,380</b>	\$1,098,680	\$1,149,450
Net income (loss) from equity accounted investments	<b>125,649</b>	(16,986)	31,201
Finance income	<b>17,229</b>	33,399	15,036
Net income (loss)	<b>597,907</b>	(624,559)	340,289
Total comprehensive income (loss)	<b>574,332</b>	(711,221)	214,963
Total assets	<b>10,501,141</b>	13,355,444	14,483,342
Total liabilities	<b>5,727,308</b>	7,284,053	7,439,425
Cash distributions per Unit	<b>\$0.79</b>	\$0.92	\$1.38

*Summary of Quarterly Information*

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

<b>(in thousands of Canadian dollars)</b>	<b>Q4 2021</b>	Q3 2021	Q2 2021	Q1 2021
Rentals from investment properties	<b>\$265,794</b>	\$268,792	\$264,327	\$266,467
Net income from equity accounted investments	<b>89,298</b>	23,532	5,628	7,191
Net income	<b>208,195</b>	135,320	94,853	159,539
Total comprehensive income	<b>183,199</b>	218,067	39,440	133,626

	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)

Major 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 decreased by \$3.0 million in Q4 2021 compared to Q3 2021 primarily due to the sale of the Bell Office Campus in October 2021.

Net income from equity accounted investments increased by \$65.8 million in Q4 2021 compared to Q3 2021 primarily due to the following: (i) fair value adjustment to Jackson Park in Q4 2021 as a result of a significant increase in occupancy; (ii) fair value adjustment to The Pearl in Q4 2021, a property under development in Austin, TX, currently classified as held for sale; and (iii) an increase in property operating income from Jackson Park. This was partially offset by the gain on sale earned from the dispositions of The Exchange at Bayfront and Esterra Park in Q3 2021.

Net income increased by \$72.9 million in Q4 2021 compared to Q3 2021 primarily due to the following: (i) fair value adjustments on financial instruments and real estate assets; and (ii) the increase in net income from equity accounted investments noted above. This was partially offset by an increase in deferred income tax expense.

Total comprehensive income (loss) decreased by \$34.9 million in Q4 2021 compared to Q3 2021 primarily due to a foreign currency loss from investment in foreign operations of \$25.0 million in Q4 2021 compared to a gain of \$82.8 million in Q3 2021. This was partially offset by the increase in net income noted above.

## 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, 2021 in the tables below:

Number of Properties <sup>(1)(2)</sup>	Canada				United States	Total
	Ontario	Alberta	Other	Subtotal		
Office	16	3	4	23	4	27
Retail <sup>(3)</sup>	31	2	7	40	252	292
Industrial	33	18	18	69	3	72
Residential <sup>(4)</sup>	-	-	-	-	23	23
<b>Total</b>	<b>80</b>	<b>23</b>	<b>29</b>	<b>132</b>	<b>282</b>	<b>414</b>

Square Feet (in thousands) <sup>(1)(2)</sup>	Canada				United States	Total
	Ontario	Alberta	Other	Subtotal		
Office	4,180	583	893	5,656	1,693	7,349
Retail <sup>(3)</sup>	1,596	240	707	2,543	3,532	6,075
Industrial	4,747	1,959	1,155	7,861	700	8,561
Residential <sup>(4)</sup>	-	-	-	-	7,591	7,591
<b>Total</b>	<b>10,523</b>	<b>2,782</b>	<b>2,755</b>	<b>16,060</b>	<b>13,516</b>	<b>29,576</b>

(1) The number of properties and square feet exclude the Bow.

(2) H&R has 16 properties under development (including one property under development held for sale) which are not included in the tables above.

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

(4) The residential properties contain 8,305 residential rental units.

**LEASE MATURITY PROFILE**

The following tables disclose H&R's leases expiring in Canada and the United States as at December 31, 2021 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
<b>LEASE EXPIRIES</b>								
2022	232,710	23.00	15,538	20.67	549,757	5.40	798,005	10.83
2023	271,108	24.21	50,173	12.69	375,148	6.85	696,429	14.03
2024	574,422	12.04	76,839	14.84	1,077,310	10.13	1,728,571	10.97
2025	422,077	20.56	126,548	13.38	705,155	6.64	1,253,780	12.01
2026	536,881	16.62	106,553	13.25	401,586	7.73	1,045,020	12.86
	2,037,198	17.88	375,651	13.85	3,108,956	7.80	5,521,805	11.93
Total % of each segment	36.0%		14.8%		39.5%		34.4%	

**U.S. Portfolio<sup>(1)</sup>:**

	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
<b>LEASE EXPIRIES</b>								
2022	563	57.48	201,294	24.63	-	-	201,857	24.72
2023	85,725	5.86	234,321	21.49	412,585	3.00	732,631	9.25
2024	-	-	170,586	16.01	123,090	3.75	293,676	10.87
2025	92,694	15.23	182,925	21.21	-	-	275,619	19.20
2026	278,850	36.19	160,515	21.80	-	-	439,365	30.93
	457,832	26.29	949,641	21.17	535,675	3.17	1,943,148	17.42
Total % of each segment	27.0%		26.9%		76.5%		32.8%	

<sup>(1)</sup> U.S. dollars.

## TOP TWENTY SOURCES OF REVENUE BY TENANT

The following table discloses H&R's top twenty tenants as at December 31, 2021 at the REIT's proportionate share:

Tenant	% of Rentals from Investment Properties <sup>(1)</sup>	Number of Locations	H&R owned sq.ft. (in 000's)	Average Lease Term to Maturity (in years) <sup>(2)</sup>	Credit Ratings (S&P)
1. Hess Corporation	8.1%	1	845	11.2	BBB- Stable
2. New York City Department of Health	6.0%	1	660	8.9	AA Stable
3. Bell Canada	5.2%	4	1,345	11.6	BBB+ Stable
4. Giant Eagle, Inc.	4.8%	194	1,611	9.8	Not Rated
5. TC Energy Corporation	3.0%	1	466	9.3	BBB+ Stable
6. Corus Entertainment Inc.	2.8%	1	472	11.2	BB Stable
7. Ovintiv Inc. <sup>(3)</sup>	2.7%	-	-	16.4	BBB- Stable
8. Canadian Tire Corporation <sup>(4)</sup>	2.4%	3	2,110	5.1	BBB Stable
9. Lowe's Companies, Inc. <sup>(5)</sup>	2.4%	13	1,346	12.3	BBB+ Stable
10. Toronto-Dominion Bank	1.5%	3	270	5.8	AA- Stable
11. Public Works and Government Services, Canada	1.4%	4	290	3.4	AAA Stable
12. Telus Communications	1.3%	1	333	2.9	BBB+ Negative
13. Royal Bank of Canada	1.3%	2	227	3.7	AA- Stable
14. Shell Oil Products	1.1%	10	131	1.4	A+ Stable
15. Sobeys Inc.	0.9%	9	331	9.3	BBB- Stable
16. Metro Inc.	0.9%	11	369	5.9	BBB Stable
17. Finning International Inc.	0.9%	15	440	6.7	BBB+ Stable
18. Purolator Inc.	0.7%	12	535	7.7	Not Rated
19. Canadian Imperial Bank of Commerce	0.7%	2	148	2.6	A+ Stable
20. Government of Ontario <sup>(6)</sup>	0.7%	4	121	9.1	A+ Stable
<b>Total</b>	<b>48.8%</b>	<b>291</b>	<b>12,050</b>	<b>9.3</b>	

<sup>(1)</sup> 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.

<sup>(2)</sup> Average lease term to maturity is weighted based on net rent.

<sup>(3)</sup> Ovintiv Inc. includes 15% of the net rent payable under the Ovintiv lease at the Bow.

<sup>(4)</sup> Canadian Tire Corporation includes Canadian Tire and Mark's.

<sup>(5)</sup> Lowe's Companies, Inc. includes Rona.

<sup>(6)</sup> Government of Ontario includes the Financial Services Regulatory Authority of Ontario and the Liquor Control Board of Ontario.

## 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, 2021, 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, 2021. 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 reviews 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, 2021 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, 2021. No changes were made to H&R's internal control over financial reporting during the three-month period ended December 31, 2021 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**

The ongoing COVID-19 pandemic and the restrictive measures taken in response by various governments 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 extent of the effect of the ongoing COVID-19 pandemic on the REIT's operational and financial performance will depend on 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.

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.

### **Current Economic Environment**

H&R is subject to risks involving the economy in general, including inflation, deflation or stagflation, unemployment, geopolitical issues and a local, regional, national or international outbreak of a contagious disease, including the outbreak of COVID-19. Poor economic conditions could adversely affect H&R's ability to generate revenues, thereby reducing its operating income and earnings. It could also have an adverse impact on the ability of H&R to maintain occupancy rates which could harm H&R's financial condition. In weak economic environments, H&R's tenants may be unable to meet their rental payments and other obligations due to H&R, which could have a material and adverse effect on H&R. In addition, fluctuation in interest rates or other financial market volatility may adversely affect H&R's ability to refinance existing indebtedness on its maturity or on terms that are as favourable as the terms of existing indebtedness, which may impact negatively on the H&R's performance, may restrict the availability of financing for future prospective purchasers of the H&R's investments and could potentially reduce the value of such investments, or may adversely affect the ability of H&R to complete acquisitions on financially desirable terms. With respect to the COVID-19 outbreak, refer to the "Risks Associated with COVID-19" above.

### **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 historically 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 Hess Corporation, New York City Department of Health and Bell Canada. Each of these entities 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 34.0% of H&R's total commercial leasable area will expire in the next 5 years. The ability to rent unleased space in the properties in which H&R has an interest will be affected by many factors. The failure to rent unleased space on a timely basis or at all or to achieve rental rate increases would likely have an adverse effect on H&R's financial condition and cash available for distributions may be adversely affected.

### **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 H&R'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.

### **Development 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.

### **Residential Rental Risk**

H&R expects to be increasingly involved in residential development projects and mixed-use development projects that include rental apartments and may include condominiums. As a landlord of its properties that include rental apartments, H&R is subject to the risks inherent in the multi-unit residential rental business, including, but not limited to, fluctuations in occupancy levels, individual credit risk, heightened reputation risk, tenant privacy concerns, potential changes to rent control regulations, increases in operating costs including the costs of utilities and the imposition of new taxes or increased property taxes. Purchaser demand for residential condominiums is cyclical and is affected by changes in general market and economic conditions, such as consumer confidence, employment levels, availability of financing for home buyers, interest rates, demographic trends, housing supply and housing demand.

### **Capital Expenditure Risk**

Leasing capital and maintenance capital are incurred in irregular amounts and may exceed actual cash available from operations during certain periods. H&R may be required to use part of its debt capacity or reduce distributions in order to accommodate such items. Capital for recoverable improvements may exceed recovery of amounts from tenants.

### **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. H&R will make the necessary capital and operating expenditures to ensure compliance with environmental laws and regulations. Although there can be no assurances, H&R does not believe that costs relating to environmental matters will have a material adverse effect on H&R's business, financial condition or results of operations. However, environmental laws and regulations may change and H&R may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on H&R's business, financial condition or results of operations.

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 H&R'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. H&R is also exposed to risks associated with inclement winter weather, including increased need for maintenance and repair of H&R's buildings. In addition, climate change, to the extent it causes changes in weather patterns, could have effects on H&R'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.

### **General Uninsured Losses**

H&R carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. H&R will have insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements, and will continue to carry such insurance if it is economical to do so. Should an uninsured or underinsured loss occur, H&R could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, but H&R would continue to be obliged to repay any recourse mortgage indebtedness on such properties.

### **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.

### **Dependence on Key Personnel**

The management of H&R depends on the services of certain key personnel, including Thomas J. Hofstedter. The loss of the services of any of these key personnel could have an adverse effect on H&R.

### **Potential Acquisition, Investment and Disposition Opportunities and Joint Venture Arrangements**

H&R evaluates business and growth opportunities and considers a number of acquisition, investment and disposition opportunities and joint venture arrangements to achieve its business and growth strategies. In the normal course, H&R may have outstanding non-binding letters of intent and/or conditional agreements or may otherwise be engaged in discussions with respect to potential acquisitions and financing of new assets, the refinancing of existing assets, potential dispositions, establishment of new joint venture arrangements, the viability and status of its joint venture arrangements, and changes to its capital structure, each of which, individually or in the aggregate, may or may not be material if they were to progress. However, there can be no assurance that any of these discussions will result in a definitive agreement and, if they do, what the terms or timing of any acquisition, investment or disposition would be or that such acquisition, investment or disposition will be completed by H&R. Similarly, there can be no assurance that H&R will enter into new joint venture arrangements or continue any existing joint venture arrangements. If H&R does complete such transactions, H&R cannot provide assurance that they will ultimately strengthen its competitive position or that they will not be viewed negatively by customers, securities analysts or investors. Such transactions may also involve significant commitments of H&R's financial and other resources. Any such activity may not be successful in generating revenue, income or other returns to H&R, and the resources committed to such activities will not be available to H&R for other purposes.

Acquisitions of properties by H&R are subject to the normal commercial risks and satisfaction of closing conditions that may include, among other things, lender approval, *Competition Act* (Canada) approval, receipt of estoppel certificates and obtaining title insurance. Such acquisitions may not be completed or, if completed, may not be on terms that are exactly the same as initially negotiated. In the event that H&R does not complete an acquisition, it may have an adverse effect on the operations and results of H&R in the future and its cash available for distributions to unitholders.

### **Potential Undisclosed Liabilities Associated with Acquisitions**

H&R may acquire properties that are subject to existing liabilities, some of which may be unknown at the time of the acquisition or which H&R may fail to uncover in its due diligence. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims by tenants, vendors or other persons dealing with the vendor or predecessor entities (that have not been asserted or threatened to date), and accrued but unpaid liabilities incurred in the ordinary course of business. Representations and warranties given by third parties to H&R regarding acquired properties may not adequately protect against these liabilities and any recourse against third parties may be limited by the financial capacity of such third parties. While in some instances H&R may have the right to seek reimbursement against an insurer or another third party for certain of these liabilities, H&R may not have recourse to the vendor of the properties for any of these liabilities.

### **Competition for Real Property Investments**

The real estate business is competitive. Numerous other developers, managers and owners of properties compete with H&R in seeking tenants. Some of the properties located in the same markets as the H&R's properties may be newer, better located, less levered or have better tenant profiles than H&R's properties. Some property owners with properties located in the same markets as the H&R's properties may be better capitalized and may be stronger financially and hence better able to withstand an economic downturn. Competitive pressures in such markets could have a negative effect on the H&R's ability to lease space in its properties and on the rents charged or concessions granted, which could have an adverse effect on the H&R's financial condition and results of operation and decrease the amount of cash available for distribution.

### **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, and are not expected to be qualified investments for registered plans, 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 N, O, Q, R and S 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 senior 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 2021. 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 qualify for the REIT Exemption 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 may cease to be qualified investments for registered retirement savings plans, deferred profit sharing plans and registered retirement income funds, and will cease to be qualified investments for 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 2020 and 2021, 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 H&R Finance Trust (“Finance Trust”) as a grantor trust that was disregarded for U.S. federal tax purposes, the interest paid to 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 distributions” 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.

Pursuant to the Arrangement, which was approved by the unitholders of the REIT on December 13, 2021, the REIT’s outstanding options were adjusted to increase the number of Units into which they could be exercised and the exercise price was adjusted to reflect the impact of the Primaris Spin-Off and reflect that upon the exercise of options, option holders would only receive Units rather than (i) Units and (ii) units of Primaris REIT. In addition, the REIT’s incentive units were similarly adjusted to reflect the impact of the Primaris Spin-Off by increasing the number of incentive units outstanding to reflect that upon settlement of incentive units, incentive unit holders would only receive Units rather than (i) Units and (ii) units of Primaris REIT. These arrangements were not considered modifications to the REIT’s equity-based compensation plans and as a result had no impact on the REIT’s Financial Statements.

As at December 31, 2021, there were 288,439,847 Units issued and outstanding and 9,500,000 special voting units outstanding. As at February 4, 2022, there were 285,059,147 Units issued and outstanding and 13,013,698 special voting units outstanding as a result of the gross-up.

As at December 31, 2021, 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, 11,660,809 options to purchase Units have been granted and are outstanding and 6,062,301 options remain available for granting. During 2021, pursuant to the Arrangement, which was approved by unitholders of the REIT on December 13, 2021, the REIT cancelled 9,063,815 options and granted 12,416,164 additional options to increase the number of Units into which such options could be exercised. Correspondingly, the exercise price was adjusted to reflect the impact of the Primaris Spin-Off and reflect that upon the exercise of options, option holders would only receive Units rather than (i) Units and (ii) units of Primaris REIT. As at February 4, 2022, there were 10,313,443 options to purchase Units outstanding and fully vested.

As at December 31, 2021, 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 1,593,778 incentive units which remain outstanding, 222,070 have been settled for Units and 3,184,152 incentive units remain available for granting. During 2021, pursuant to the Arrangement, which was approved by unitholders of the REIT on December 13, 2021, the REIT cancelled 212,089 incentive units and granted 430,295 additional incentive units to adjust the number of incentive units outstanding to reflect that upon settlement of incentive units, incentive unit holders would only receive Units rather than (i) Units and (ii) units of Primaris REIT. As at February 4, 2022, there were 1,612,852 incentive units outstanding.

As at December 31, 2021, there were 13,344,071 exchangeable units outstanding of which 9,500,000 exchangeable units are accompanied by special voting units. As at February 4, 2022, there were 13,344,071 exchangeable units, exchangeable into 18,279,546 Units including 9,500,000 special voting units, entitling the holder thereof to 13,013,698 votes.

## **ADDITIONAL INFORMATION**

Additional information relating to H&R, including H&R's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **SUBSEQUENT EVENTS**

- (a) On January 4, 2022, the Board exercised its gross-up option which provides that upon exchange of exchangeable units of the REIT, instead of delivering to exchangeable unit holders (i) Units and (ii) units of Primaris REIT, the REIT would deliver additional Units to such holders upon exchange, and the votes associated with the special voting units would reflect the number of votes associated with the Units deliverable upon exchange. Subsequent to this gross-up, there were 13,344,071 exchangeable units outstanding, exchangeable into 18,279,546 Units including 9,500,000 special voting units, entitling the holder thereof to 13,013,698 votes.
- (b) On January 10, 2022, the REIT exchanged its exchangeable units of a subsidiary of Primaris REIT into Primaris REIT units.
- (c) As at February 9, 2022, the REIT purchased and cancelled 4,222,700 Units at a weighted average price of \$13.00 per Unit, for a total cost of \$54.9 million, under the renewal of its NCIB.
- (d) In February 2022, the REIT repaid 10 mortgages for an aggregate amount of approximately \$21.5 million at the REIT's share, with a weighted average interest rate of 3.96% per annum.
- (e) In February 2022, the REIT repaid one U.S. mortgage, prior to maturity, of approximately U.S. \$31.6 million, bearing interest at 3.86% per annum. The REIT incurred a prepayment penalty of approximately U.S. \$2.6 million.



Consolidated financial statements of

**H&R REAL ESTATE INVESTMENT TRUST**

Years ended December 31, 2021 and 2020



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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 statements of financial position as at December 31, 2021 and December 31, 2020;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in unitholders' equity for the years then ended;
- the consolidated statements 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, 2021 and December 31, 2020, and its consolidated financial performance and its cash flows for the years 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, 2021.



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 matter described below to be the key audit matter 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 \$8,581,100 thousand. The Entity also has equity accounted investments of \$992,679 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 \$4,433,546 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 forecasted 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 forecasted 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 "2021 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 "2021 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*

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Chartered Professional Accountants, Licensed Public Accountants

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

Toronto, Canada  
February 14, 2022

# H&R REAL ESTATE INVESTMENT TRUST

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

	<i>Note</i>	<b>December 31 2021</b>	December 31 2020
<b>Assets</b>			
Real estate assets:			
Investment properties	3	<b>\$ 8,581,100</b>	\$ 11,149,130
Properties under development	3	<b>481,432</b>	449,849
		<b>9,062,532</b>	11,598,979
Equity accounted investments	4	<b>992,679</b>	955,468
Assets classified as held for sale	5	-	219,050
Other assets	6	<b>321,789</b>	519,088
Cash and cash equivalents	7	<b>124,141</b>	62,859
		<b>\$ 10,501,141</b>	\$ 13,355,444
<b>Liabilities and Unitholders' Equity</b>			
Liabilities:			
Debt	8	<b>\$ 3,894,906</b>	\$ 6,368,316
Exchangeable units	9	<b>216,841</b>	197,796
Bow deferred revenue	10	<b>896,801</b>	-
Deferred tax liability	22	<b>350,501</b>	348,755
Accounts payable and accrued liabilities	11	<b>368,259</b>	369,186
		<b>5,727,308</b>	7,284,053
Unitholders' equity		<b>4,773,833</b>	6,071,391
Commitments and contingencies	23		
Subsequent events	6, 9, 13, 25		
		<b>\$ 10,501,141</b>	\$ 13,355,444

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, 2021 and 2020

	Note	2021	2020
Property operating income:			
Rentals from investment properties	15	\$ 1,065,380	\$ 1,098,680
Property operating costs		(403,798)	(435,014)
		<b>661,582</b>	663,666
Net income (loss) from equity accounted investments	4	125,649	(16,986)
Finance cost - operations	16	(236,878)	(228,869)
Finance income	16	17,229	33,399
Trust expenses		(27,936)	(14,297)
Fair value adjustment on financial instruments	16	43,859	82,974
Fair value adjustment on real estate assets	3	12,984	(1,195,958)
Gain (loss) on sale of real estate assets, net of related costs	3	6,957	(2,229)
Net income (loss) before income taxes		<b>603,446</b>	(678,300)
Income tax (expense) recovery	22	(5,539)	53,741
Net income (loss)		<b>597,907</b>	(624,559)
Other comprehensive loss:			
Items that are or may be reclassified subsequently to net income (loss)	14	(23,575)	(86,662)
Total comprehensive income (loss) attributable to unitholders		<b>\$ 574,332</b>	\$ (711,221)

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, 2021 and 2020

UNITHOLDERS' EQUITY	<i>Note</i>	Value of Units	Accumulated net income	Accumulated distributions	Accumulated other comprehensive income	Total
Unitholders' equity, January 1, 2020		\$ 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	14	-	-	-	(86,662)	(86,662)
Unitholders' equity, December 31, 2020		5,391,766	5,273,792	(4,754,003)	159,836	6,071,391
<b>Proceeds from issuance of Units</b>		<b>25,653</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,653</b>
<b>Net income</b>		<b>-</b>	<b>597,907</b>	<b>-</b>	<b>-</b>	<b>597,907</b>
<b>Distributions to unitholders</b>		<b>-</b>	<b>-</b>	<b>(227,312)</b>	<b>-</b>	<b>(227,312)</b>
<b>Primaris Spin-Off</b>	13(d)	<b>-</b>	<b>-</b>	<b>(1,670,231)</b>	<b>-</b>	<b>(1,670,231)</b>
<b>Other comprehensive loss</b>	14	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23,575)</b>	<b>(23,575)</b>
<b>Unitholders' equity, December 31, 2021</b>		<b>\$ 5,417,419</b>	<b>\$ 5,871,699</b>	<b>\$ (6,651,546)</b>	<b>\$ 136,261</b>	<b>\$ 4,773,833</b>

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, 2021 and 2020

	Note	2021	2020
Cash provided by (used in):			
Operations:			
Net income (loss)		\$ 597,907	\$ (624,559)
Finance cost - operations	16	236,878	228,869
Interest paid		(227,301)	(247,723)
Items not affecting cash:			
Rental income accrued from the Bow	10	(16,520)	-
Net (income) loss from equity accounted investments	4	(125,649)	16,986
Rent amortization of tenant inducements	15	4,557	2,661
Fair value adjustment on real estate assets	3	(12,984)	1,195,958
(Gain) loss on sale of real estate assets, net of related costs	3	(6,957)	2,229
Unrealized fair value adjustment on financial instruments		(38,190)	(82,974)
Unit-based compensation expense (recovery)	13(b)	8,225	(10,341)
Deferred income taxes (recovery)	22	4,458	(54,000)
Change in other non-cash operating items	17	27,683	(178)
		<b>452,107</b>	<b>426,928</b>
Investing:			
Properties under development:			
Acquisitions	3	(251,495)	(34,710)
Additions	3, 17	(34,141)	(166,179)
Investment properties:			
Bow deferred revenue	10	904,377	-
Net proceeds on disposition of real estate assets		818,963	95,904
Acquisitions	3	(96,211)	(33,506)
Redevelopment	3, 17	(74,577)	(73,955)
Capital expenditures	3	(47,089)	(52,980)
Leasing expenses and tenant inducements	3	(18,865)	(49,927)
Equity accounted investments, net		65,132	8,200
Mortgages receivable, net		231,523	123,710
Restricted cash	6	(1,803)	199
		<b>1,495,814</b>	<b>(183,244)</b>
Financing:			
Unsecured term loans	8(d)	(186,629)	-
Lines of credit	8(d)	(329,018)	(295,959)
Mortgages payable:			
New mortgages payable	8(a)	359,184	214,772
Principal repayments	8(a)	(1,464,350)	(193,785)
Redemption of debentures payable	8(b)	(325,000)	(337,500)
Proceeds from issuance of debentures payable	8(b)	298,622	646,703
Proceeds from issuance of Units		-	(124)
Distributions to unitholders		(227,312)	(263,572)
Primaris Spin-Off	13(d), 17	(12,136)	-
		<b>(1,886,639)</b>	<b>(229,465)</b>
Increase in cash and cash equivalents		61,282	14,219
Cash and cash equivalents, beginning of year	7	62,859	48,640
Cash and cash equivalents, end of year	7	<b>\$ 124,141</b>	<b>\$ 62,859</b>

See note on supplemental cash flow information (note 17).

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, 2021 and 2020**

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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.

On December 31, 2021, the REIT completed a spin off, on a tax-free basis, of 27 properties including all of the REIT's enclosed shopping centres (the "Primaris Spin-Off") to a new publicly-traded REIT ("Primaris REIT"). The Primaris Spin-Off was implemented by way of a Plan of Arrangement (the "Arrangement"), which was approved by unitholders of the REIT on December 13, 2021 (note 13(d)).

Pursuant to the Arrangement, each holder of Units received one Primaris REIT unit for every four Units held (after giving effect to a 4:1 consolidation of Primaris REIT units pursuant to the Arrangement), such that unitholders held Primaris REIT units in addition to their Units as at December 31, 2021.

The financial results for the 27 properties contributed by the REIT to Primaris REIT have been included for the entire 2021 calendar year in the REIT's consolidated statements of comprehensive income (loss) for the year ended December 31, 2021. However, as the Primaris Spin-Off was completed on December 31, 2021, these properties have been excluded from the REIT's consolidated statements of financial position as at December 31, 2021.

## 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 (the "Board") on February 14, 2022.

### (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.

### (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).

# 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, 2021 and 2020

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## 1. Basis of preparation (continued):

### (ii) Use of judgements

The critical judgements made in applying accounting policies that have the most significant effect on the amounts recognized in these 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.

- 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.

# H&R REAL ESTATE INVESTMENT TRUST

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**Years ended December 31, 2021 and 2020**

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## 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, comprising its purchase price and any directly attributable expenditures. 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 the carrying amount of the 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.

### (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.

# H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

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## 2. Significant accounting policies (continued):

### (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 statements 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.

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 2021 and the 2020 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 13(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.

# H&R REAL ESTATE INVESTMENT TRUST

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## 2. Significant accounting policies (continued):

### (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.

### (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, accretion finance expense on the Bow deferred revenue, 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.

# 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, 2021 and 2020**

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## 2. Significant accounting policies (continued):

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 (loss) 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.

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 (loss) 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.



# H&R REAL ESTATE INVESTMENT TRUST

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## 2. Significant accounting policies (continued):

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.

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, carried at FVTPL, 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, unless the treatment of the effects of the changes in the credit risk of the liability would create an accounting mismatch 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 judgement, 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 statements of comprehensive income (loss) 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 19. 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.

# H&R REAL ESTATE INVESTMENT TRUST

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**Years ended December 31, 2021 and 2020**

## 3. Real estate assets:

	December 31, 2021		December 31, 2020		
	Note	Investment Properties	Properties Under Development	Investment Properties	Properties Under Development
Opening balance, beginning of year		\$ 11,149,130	\$ 449,849	\$ 11,988,347	\$ 683,145
Acquisitions, including transaction costs		96,211	251,495	33,506	34,710
Dispositions		(654,282)	(630)	(22,145)	-
Primaris Spin-Off	13(d)	(2,403,350)	-	-	-
Operating capital:					
Capital expenditures		47,089	-	52,980	-
Leasing expenses and tenant inducements		18,865	-	49,927	-
Development capital:					
Redevelopment (including capitalized interest)		77,105	-	77,867	-
Additions to properties under development (including capitalized interest)		-	35,011	-	182,876
Amortization of tenant inducements and straight-lining of contractual rents		20,687	-	13,905	-
Transfer of properties under development that have reached substantial completion to investment properties		251,535	(251,535)	436,400	(436,400)
Transfer of investment properties to assets classified as held for sale		-	-	(219,050)	-
Transfer of investment property from equity accounted investments	17	-	-	15,665	-
Transfer of investment properties to properties under development		-	-	(665)	665
Change in right-of-use asset <sup>(1)</sup>	17	-	(977)	-	(927)
Fair value adjustment on real estate assets		5,881	7,103	(1,195,958)	-
Change in foreign exchange		(27,771)	(8,884)	(81,649)	(14,220)
Closing balance, end of year		\$ 8,581,100	\$ 481,432	\$ 11,149,130	\$ 449,849

(1) As at December 31, 2021, the right-of-use asset in a leasehold interest of \$29,122 (2020 - \$30,336) was measured at an amount equal to the corresponding lease liability (note 11).

### Asset acquisitions:

During the year ended December 31, 2021, the REIT acquired:

- one industrial property (year ended December 31, 2020 - two industrial properties and one office property); and
- four residential properties under development (year ended December 31, 2020 - 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 2021	December 31 2020
<b>Assets</b>		
Investment properties	\$ 96,193	\$ 33,477
Properties under development	251,495	34,710
	<b>\$ 347,688</b>	<b>\$ 68,187</b>

During the year ended December 31, 2021, the REIT incurred additional costs of \$18 (year ended December 31, 2020 - \$29) in respect of prior year acquisitions which are not included in the above table.

# H&R REAL ESTATE INVESTMENT TRUST

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## 3. Real estate assets (continued):

### Asset dispositions:

During the year ended December 31, 2021, the REIT sold one U.S. office property, one U.S. retail property, four Canadian office properties, a 50% interest in 16 industrial properties and one U.S. office property under development and recognized, in aggregate, a gain on sale of real estate assets of \$6,957.

On December 31, 2021, the REIT completed the Primaris Spin-Off, on a tax-free basis, of 27 properties including all of the REIT's enclosed shopping centres.

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.

### 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, 2021, 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 21.6% of the fair value of investment properties as at December 31, 2021 (year ended December 31, 2020 - 13.4%).

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 <sup>(1)</sup>			Discount Rates <sup>(2)</sup>			Terminal Capitalization Rates <sup>(1) (2)</sup>		
	Canada	United States	Total	Canada	United States	Total	Canada	United States	Total
<b>December 31, 2021</b>	<b>5.63%</b>	<b>5.45%</b>	<b>5.54%</b>	<b>6.56%</b>	<b>6.70%</b>	<b>6.60%</b>	<b>5.99%</b>	<b>6.17%</b>	<b>6.05%</b>
December 31, 2020	6.63%	5.39%	6.22%	7.54%	6.63%	7.35%	6.94%	6.03%	6.75%

(1) The Bow has been excluded for the 2021 figures.

(2) Excludes the residential segment.

# H&R REAL ESTATE INVESTMENT TRUST

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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 applied as at December 31, 2021:

Capitalization Rate Sensitivity Increase (Decrease)	Capitalization Rate	Fair Value of Investment Properties <sup>(1)</sup>	Fair Value Variance	% Change
(0.75%)	4.79%	\$ 8,718,482	\$ 1,180,300	15.66%
(0.50%)	5.04%	\$ 8,286,018	\$ 747,836	9.92%
(0.25%)	5.29%	\$ 7,894,429	\$ 356,247	4.73%
<b>December 31, 2021</b>	<b>5.54%</b>	<b>\$ 7,538,182</b>	<b>\$ -</b>	<b>0.00%</b>
0.25%	5.79%	\$ 7,212,699	\$ (325,483)	(4.32%)
0.50%	6.04%	\$ 6,914,160	\$ (624,022)	(8.28%)
0.75%	6.29%	\$ 6,639,353	\$ (898,829)	(11.92%)

(1) Excludes the Bow.

## 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, 2021, the REIT: (i) disposed of one residential property; and (ii) disposed of one residential property under development.

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.

# H&R REAL ESTATE INVESTMENT TRUST

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## 4. Equity accounted investments (continued):

Description of equity accounted investments	Location	Operating segment	Ownership interest	
			December 31 2021	December 31 2020
Investments in joint ventures: <sup>(1)</sup>				
Slate Drive	Canada	Industrial	50.0%	50.0%
One industrial property	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%
Shoreline	United States	Residential	31.2%	31.2%
Investments in associates: <sup>(2)</sup>				
ECHO Realty LP ("ECHO")	United States	Retail	33.7%	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, 2021				December 31, 2020			
	---Associates---		Joint Ventures <sup>(1)</sup>		---Associates---		Joint Ventures <sup>(1)</sup>	
	ECHO	Jackson Park	Total		ECHO	Jackson Park	Total	
Investment properties <sup>(2)</sup>	\$ 2,452,196	\$ 1,953,000	\$ 28,350	\$ 4,433,546	\$ 2,477,430	\$ 1,936,750	\$ 141,945	\$ 4,556,125
Properties under development	24,672	-	474,875	499,547	50,071	-	569,669	619,740
Assets classified as held for sale	-	-	119,784	119,784	33,020	-	-	33,020
Other assets	32,630	4,668	591	37,889	44,939	9,126	1,824	55,889
Cash and cash equivalents	19,888	23,267	47,758	90,913	29,736	27,860	12,237	69,833
Debt	(917,997)	(1,245,445)	(299,122)	(2,462,564)	(1,004,874)	(1,253,443)	(300,681)	(2,558,998)
Accounts payable and accrued liabilities	(41,780)	(15,942)	(16,823)	(74,545)	(62,132)	(13,149)	(59,121)	(134,402)
Lease liability <sup>(2)</sup>	(92,173)	-	-	(92,173)	(119,310)	-	-	(119,310)
Non-controlling interest	(66,856)	-	-	(66,856)	(67,948)	-	-	(67,948)
Net assets	1,410,580	719,548	355,413	2,485,541	1,380,932	707,144	365,873	2,453,949
REIT's share of net assets	\$ 482,395	\$ 360,103	\$ 150,181	\$ 992,679	\$ 471,337	\$ 353,903	\$ 130,228	\$ 955,468

(1) See the table "Description of equity accounted investments" for the composition of the investments in joint ventures.

(2) As at December 31, 2021, the total fair value of investment properties within equity accounted investments, net of the lease liability, is \$4,341,373 (December 31, 2020 - \$4,436,815).

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, 2021 and November 30, 2020, respectively. In December 2021, ECHO acquired one investment property for approximately U.S. \$5,500 at the REIT's share.

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## 4. Equity accounted investments (continued):

Net income (loss) from equity accounted investments in:	Year ended December 31, 2021				Year ended December 31, 2020			
	---Associates---		Joint Ventures <sup>(1)</sup>		---Associates---		Joint Ventures <sup>(1)</sup>	
	ECHO	Jackson Park	Total		ECHO	Jackson Park	Total	
Rentals from investment properties	\$ 200,449	\$ 73,353	\$ 6,973	\$ 280,775	\$ 215,970	\$ 89,825	\$ 4,791	\$ 310,586
Property operating costs	(43,219)	(39,081)	(2,343)	(84,643)	(51,552)	(35,040)	(626)	(87,218)
Net income from equity accounted investments	279	-	-	279	1,425	-	-	1,425
Finance income (loss)	(126)	-	3	(123)	625	-	276	901
Finance cost - operations	(42,292)	(43,046)	(3,948)	(89,286)	(48,393)	(46,266)	(176)	(94,835)
Trust expenses	(12,234)	-	(59)	(12,293)	(11,068)	-	(85)	(11,153)
Fair value adjustment on financial instruments	3,807	-	-	3,807	(4,340)	-	-	(4,340)
Fair value adjustment on real estate assets	(17,217)	107,229	24,000	114,012	(15,497)	(104,423)	7,433	(112,487)
Gain (loss) on sale of real estate assets	(179)	-	70,252	70,073	(4,022)	-	(928)	(4,950)
Income tax (expense) recovery	(199)	(1)	(72)	(272)	(120)	(19)	333	194
Net income (loss)	89,069	98,454	94,806	282,329	83,028	(95,923)	11,018	(1,877)
Net income attributable to non-controlling interest	(2,677)	-	-	(2,677)	(2,369)	-	-	(2,369)
Net income (loss) attributable to owners	86,392	98,454	94,806	279,652	80,659	(95,923)	11,018	(4,246)
REIT's share of net income (loss) attributable to unitholders	\$ 29,096	\$ 49,227	\$ 47,326	\$ 125,649	\$ 27,099	\$ (47,961)	\$ 3,876	\$ (16,986)

(1) See the table "Description of equity accounted investments" for the composition of the investments in joint ventures.

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, 2020 to November 30, 2021 and December 1, 2019 to November 30, 2020, respectively.

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

As at December 31, 2021, the REIT had no properties (December 31, 2020 - one U.S. office property and a 50% interest in one industrial property) classified as held for sale.

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

	December 31 2021	December 31 2020
Assets		
Investment properties	\$ -	\$ 219,050
	\$ -	\$ 219,050

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## 6. Other assets:

	Note	December 31 2021	December 31 2020
Mortgages receivable <sup>(1)</sup>		\$ 191,008	\$ 425,486
Prepaid expenses and sundry assets		60,005	63,058
Exchangeable units of Primaris REIT <sup>(2)</sup>	9	55,111	-
Accounts receivable <sup>(3)</sup> - net of provision for expected credit loss of \$2,885 (2020 - \$15,135)		6,130	19,618
Restricted cash		9,535	7,732
Derivative instruments	12	-	3,194
		<b>\$ 321,789</b>	<b>\$ 519,088</b>

	December 31 2021	December 31 2020
Current	\$ 265,861	\$ 361,781
Non-current	55,928	157,307
	<b>\$ 321,789</b>	<b>\$ 519,088</b>

- (1) Mortgages receivable include \$69,525 classified as fair value through profit and loss and \$121,483 classified as amortized cost (December 31, 2020 - \$240,716 and \$184,770, respectively). As at December 31, 2021, mortgages receivable bear interest at effective rates between 2.50% and 14.32% per annum (December 31, 2020 - between 4.40% and 14.32% per annum) with a weighted average effective rate of 9.03% per annum (December 31, 2020 - 9.78%), and mature between 2022 and 2029 (December 31, 2020 - mature between 2021 and 2029).

Future repayments of mortgages receivable are as follows:

	December 31 2021
Years ending December 31:	
2022	\$ 135,080
2023	16,013
2024	-
2025	-
2026	14,147
Thereafter	25,768
	<b>\$ 191,008</b>

- (2) As at December 31, 2021, the REIT held 13,344,071 exchangeable units of a subsidiary of Primaris REIT, exchangeable into 3,336,016 Primaris REIT units, to satisfy its obligations to its exchangeable unit holders. The exchangeable units were valued at \$55,111 based on the pro rata net asset value of Primaris REIT. On January 4, 2022, the Board exercised its gross-up option in respect of the REIT's exchangeable units (note 9) and the REIT was no longer obligated to deliver Primaris REIT units to its exchangeable unit holders. As a result, on January 10, 2022, the REIT exchanged its exchangeable units of a subsidiary of Primaris REIT into Primaris REIT units.
- (3) 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 2021	December 31 2020
Opening balance, beginning of year	\$ 15,135	\$ 1,073
Bad debt expense <sup>(i)</sup>	3,290	39,708
Accounts receivable write-off	(7,743)	(25,646)
Primaris Spin-Off <sup>(ii)</sup>	(7,797)	-
Closing balance, end of year	<b>\$ 2,885</b>	<b>\$ 15,135</b>

(i) For the year ended December 31, 2020 includes \$5,855 of rent abatements granted under the Canada Emergency Commercial Rent Assistance (CECRA) program.

(ii) Included in Other assets (note 13(d)).

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Notes to Consolidated Financial Statements

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## 7. Cash and cash equivalents:

Cash and cash equivalents at December 31, 2021 includes cash on hand of \$124,141 (December 31, 2020 - \$62,587) and bank term deposits of nil (December 31, 2020 - \$272 bearing interest at a rate of 0.09%).

Included in cash and cash equivalents at December 31, 2021 are U.S. dollar denominated amounts of U.S. \$33,287 (December 31, 2020 - U.S. \$27,127). The Canadian dollar equivalent of these amounts is \$41,942 (December 31, 2020 - \$34,451).

## 8. Debt:

The REIT's debt consists of the following items:

	Note	December 31 2021	December 31 2020
Mortgages payable	8(a)	\$ 1,837,281	\$ 3,623,652
Debentures payable	8(b)	1,545,125	1,568,817
Unsecured term loans	8(c)	500,000	688,029
Lines of credit	8(d)	12,500	487,818
		<b>\$ 3,894,906</b>	<b>\$ 6,368,316</b>

### (a) Mortgages payable:

The mortgages payable are secured by 76 real estate assets with an aggregate fair value of \$3,869,739, bear interest at fixed rates with a contractual weighted average rate of 4.00% (December 31, 2020 - 4.01%) per annum and mature between 2022 and 2032 (December 31, 2020 - maturing between 2021 and 2032). Included in mortgages payable at December 31, 2021 are U.S. dollar denominated mortgages of U.S. \$841,202 (December 31, 2020 - U.S. \$1,053,304). The Canadian dollar equivalent of these amounts is \$1,059,914 (December 31, 2020 - \$1,337,696).

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 2021
Years ending December 31:	
2022	\$ 303,525
2023	135,084
2024	78,724
2025	138,600
2026	86,015
Thereafter	1,105,221
	<b>1,847,169</b>
Financing costs and mark-to-market adjustment arising on acquisitions	<b>(9,888)</b>
	<b>\$ 1,837,281</b>



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## 8. Debt (continued):

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

	Note	December 31 2021	December 31 2020
Opening balance, beginning of year		\$ 3,623,652	\$ 3,630,858
Primaris Spin-Off	13(d)	(580,000)	-
Principal repayments:			
Scheduled amortization on mortgages		(103,819)	(122,857)
Mortgage repayments		(1,360,531)	(70,928)
New mortgages		359,184	214,772
Mortgage assumed by purchaser	17	(96,735)	-
Effective interest rate accretion on mortgages		6,063	2,712
Change in foreign exchange		(10,533)	(30,905)
Closing balance, end of year		\$ 1,837,281	\$ 3,623,652

### (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 2021	December 31 2020
	Maturity	Contractual interest rate	Effective interest rate	Principal amount	Carrying value
Senior Debentures					
Series L Senior Debentures	November 12, 2021 <sup>(1)</sup>	2.92%	3.11%	\$ -	\$ 323,776
Series O Senior Debentures	January 23, 2023	3.42%	3.44%	250,000	249,664
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	349,146
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	398,490
Series R Senior Debentures	June 2, 2026	2.91%	3.00%	250,000	249,021
Series S Senior Debentures	February 19, 2027	2.63%	2.72%	300,000	298,804
		3.34%	3.43%	\$ 1,550,000	\$ 1,545,125
					\$ 1,568,817

(1) In November 2021, the REIT redeemed all of its \$325,000 principal amount of outstanding 2.923% Series L Senior Debentures.

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 prior to the specified par call date 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, Series R and Series S senior debentures) or 30 days (for 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, Series R and Series S 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 O, N, Q, R and S unsecured senior debentures (collectively, the "Senior Debentures") pay interest semi-annually.

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**Years ended December 31, 2021 and 2020**

## 8. Debt (continued):

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

	December 31 2021	December 31 2020
Senior Debentures		
Carrying value, beginning of year	\$ 1,568,817	\$ 1,257,731
Redemption - Series L Senior Debentures	(325,000)	-
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
Issuance - Series S Senior Debentures	298,622	-
Accretion adjustment	2,686	1,883
Carrying value, end of year	\$ 1,545,125	\$ 1,568,817

### (c) Unsecured term loans:

The REIT has the following unsecured term loans:

	Maturity Date	December 31 2021	December 31 2020
H&R REIT unsecured term loan #1 <sup>(1)</sup>	March 17, 2021	\$ -	\$ 188,029
H&R REIT unsecured term loan #2 <sup>(2)</sup>	March 7, 2024	250,000	250,000
H&R REIT unsecured term loan #3 <sup>(3)</sup>	January 6, 2026	250,000	250,000
		\$ 500,000	\$ 688,029

(1) The total facility drawn in Canadian and U.S. dollars was repaid in March 2021. The REIT had 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, which settled in March 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 (note 12).

(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 12).

Included in unsecured term loans at December 31, 2021, are U.S. denominated amounts of nil (December 31, 2020 - U.S. \$140,000). The Canadian dollar equivalent of these amounts is nil (December 31, 2020 - \$177,800).

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## 8. Debt (continued):

(d) Lines of credit:

The REIT has the following lines of credit:

	Maturity Date	Total Facility	Amount Drawn	Outstanding Letters of Credit	Available Balance
<b>Revolving unsecured operating lines of credit:</b>					
H&R REIT revolving unsecured line of credit	September 20, 2022	\$ 150,000	\$ -	\$ -	\$ 150,000
H&R REIT revolving unsecured line of credit	December 14, 2026 <sup>(1)</sup>	750,000	-	(1,955)	748,045
H&R REIT revolving unsecured letter of credit facility		60,000	-	(17,997)	42,003
Sub-total		960,000	-	(19,952)	940,048
<b>Revolving secured operating lines of credit<sup>(2)</sup>:</b>					
H&R REIT and CrestPSP revolving secured line of credit	April 30, 2022	25,000	(12,500)	(105)	12,395
Sub-total		25,000	(12,500)	(105)	12,395
<b>December 31, 2021</b>		<b>\$ 985,000</b>	<b>\$ (12,500)</b>	<b>\$ (20,057)</b>	<b>\$ 952,443</b>
December 31, 2020		\$ 1,622,500	\$ (487,818)	\$ (31,797)	\$ 1,102,885

<sup>(1)</sup> In December 2021, the REIT secured a \$750,000 unsecured line of credit from a syndicate of six Canadian banks for a five-year term and terminated four lines of credit.

<sup>(2)</sup> 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.

Included in lines of credit at December 31, 2021 are U.S. dollar denominated amounts of nil (December 31, 2020 - U.S. \$330,000). The Canadian dollar equivalent of these amounts is nil (December 31, 2020 - \$419,100).

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

	Note	December 31, 2021		December 31, 2020	
		Unsecured Term Loans	Lines of Credit	Unsecured Term Loans	Lines of Credit
Opening balance, beginning of year		\$ 688,029	\$ 487,818	\$ 692,229	\$ 795,042
Net repayments		(186,629)	(329,018)	-	(295,959)
Primaris Spin-Off	13(d)	-	(143,000)	-	-
Change in foreign exchange		(1,400)	(3,300)	(4,200)	(11,265)
Closing balance, end of year		\$ 500,000	\$ 12,500	\$ 688,029	\$ 487,818

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## 9. Exchangeable units:

As at December 31, 2021, certain of the REIT's subsidiaries had in aggregate 13,344,071 (December 31, 2020 - 14,883,065) exchangeable units outstanding which are puttable instruments where, upon redemption, the REIT has a contractual obligation to issue Units and Primaris REIT units. 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 H&R and Primaris REIT units. These puttable instruments are classified as a liability under IFRS and are measured at FVTPL. 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, 2021 of \$16.25 per Unit reflects the trading of Units and Primaris REIT units together on a "due bill" basis until the close of markets on January 4, 2022 (December 31, 2020 - \$13.29 per Unit).

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

	Note	-----December 31, 2021-----			December 31, 2020
Exchangeable into units of:		H&R REIT	Primaris REIT	Total	H&R REIT
Carrying value, beginning of year		\$ 197,796	\$ -	\$ 197,796	\$ 323,173
Exchanged for Units		(25,264)	-	(25,264)	(4,228)
Exchangeable into Primaris REIT units	6	-	55,111	55,111	-
Gain on fair value of exchangeable units		(10,802)	-	(10,802)	(121,149)
Carrying value, end of year		\$ 161,730	\$ 55,111	\$ 216,841	\$ 197,796

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

On January 4, 2022, the Board exercised its gross-up option which provides that upon exchange of exchangeable units of the REIT, instead of delivering to exchangeable unit holders (i) Units and (ii) units of Primaris REIT, the REIT would deliver additional Units to such holders upon exchange, and the votes associated with the special voting units would reflect the number of votes associated with the Units deliverable upon exchange. Subsequent to this gross-up, there were 13,344,071 exchangeable units outstanding, exchangeable into 18,279,546 Units including 9,500,000 special voting units, entitling the holder thereof to 13,013,698 votes.

## 10. Bow deferred revenue:

### Sale of the Bow property and 40% interest in the Ovintiv lease

In October 2021, the REIT sold its interest in the Bow property including 40% of the future income stream derived from the Ovintiv lease ("Ovintiv lease") until the end of the lease term in May 2038 to an arm's length third party, Oak Street Real Estate Capital ("Oak Street") for approximately \$528,000. Subsequent to the maturity of the Ovintiv lease, Oak Street will receive all future lease revenue earned by the property. Although the REIT sold the property, the transaction did not meet the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of the Bow property for approximately \$737,000 in 2038 or earlier under certain circumstances. As such, the REIT continues to recognize the income producing property whereby the fair value will be adjusted over the remaining life of the Ovintiv lease bringing the value of the real estate asset to nil by the lease maturity. The net proceeds received by the REIT on disposition were \$496,063. These proceeds were recorded as Bow deferred revenue (classified as a liability) and will be amortized over the remaining term of the lease (40% of the rental income remitted to Oak Street will consist of principal and interest).

### Sale of 45% interest in the Ovintiv lease

In a separate transaction, in October 2021, the REIT sold 45% of its residual 60% interest in the future income stream derived from the Ovintiv lease to an arm's length third party that was financed by Deutsche Bank Credit Solutions and Direct Lending ("Deutsche Bank"). The REIT received a lump-sum cash payment of \$418,000 as consideration. The net proceeds received of \$408,314 were also recorded as Bow deferred revenue (classified as a liability) and will be amortized over the remaining term of the lease as the 45% lease payments are made to Deutsche Bank and will consist of principal and interest.

As a result of the above transactions, the REIT is legally only entitled to 15% of the lease revenue from the Ovintiv lease until the end of the lease term in May 2038.

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## 10. Bow deferred revenue (continued):

The following is a summary of the Bow in the consolidated statement of financial position:

	<b>December 31</b>
	<b>2021</b>
Income producing property - fair value of the Bow <sup>(1)</sup>	\$ 1,042,918
Bow deferred revenue (net of amortized principal of \$7,576)	896,801

<sup>(1)</sup> The fair value of the income producing property will be reduced as the remaining financial benefit from this income producing property diminishes over the term of the lease.

The following is a summary of the financial results for the Bow included in the consolidated statements of comprehensive income (loss):

	<b>October</b>	<b>November</b>	<b>December</b>	<b>Three months ended</b>	<b>Year ended</b>
	<b>2021</b>	<b>2021</b>	<b>2021</b>	<b>December 31, 2021</b>	<b>December 31, 2021</b>
Rental income earned from the Bow	\$ 5,533	\$ 1,191	\$ 1,241	\$ 7,965	\$ 81,194
Rental income accrued from the Bow - <b>non-cash</b>	2,634	6,943	6,943	16,520	16,520
Straight-lining of contractual rent	-	-	-	-	1,254
Revenue reimbursement for property operating costs	1,754	5,618	3,369	10,741	42,058
Property operating costs	(1,754)	(5,618)	(3,369)	(10,741)	(42,058)
Property operating income from the Bow	8,167	8,134	8,184	24,485	98,968
Finance cost - operations	(1,390)	-	-	(1,390)	(20,172)
Finance income	36	32	2	70	60
Accretion finance expense on Bow deferred revenue - <b>non-cash</b>	(1,426)	(3,759)	(3,759)	(8,944)	(8,944)
Fair value adjustment on real estate asset - <b>non-cash</b>	-	-	(4,391)	(4,391)	90,817
Net income from the Bow	\$ 5,387	\$ 4,407	\$ 36	\$ 9,830	\$ 160,729

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## 11. Accounts payable and accrued liabilities:

	Note	December 31 2021	December 31 2020
<b>Current:</b>			
Other accounts payable and accrued liabilities		\$ 204,724	\$ 205,572
Distributions payable		47,531	17,350
Debt interest payable		20,106	21,852
Prepaid rent		31,447	35,355
Derivative instruments	12	-	469
Unit-based compensation payable:			
Options	13(b)	4,435	789
Incentive units	13(b)	2,962	3,807
<b>Non-current:</b>			
Derivative instruments	12	11,217	41,820
Lease liability <sup>(1)</sup>		29,122	30,336
Security deposits		9,092	6,709
Unit-based compensation payable:			
Incentive units	13(b)	7,623	5,127
		<b>\$ 368,259</b>	<b>\$ 369,186</b>

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

## 12. Derivative instruments:

		Maturity	Fair value asset (liability)*		Net unrealized gain (loss) on derivative instruments	
			December 31 2021	December 31 2020	December 31 2021	December 31 2020
Debenture interest rate swap	(1)	February 13, 2020	\$ -	\$ -	\$ -	\$ 404
Term loan interest rate swap	(2)	March 17, 2021	-	(469)	469	(1,221)
Term loan interest rate swap	(3)	May 7, 2030	(4,157)	(20,797)	16,640	(18,020)
Term loan interest rate swap	(4)	January 6, 2026	(7,060)	(21,023)	13,963	(14,852)
Incentive units swaps	(5)	2021	-	3,194	(3,194)	3,194
			<b>\$ (11,217)</b>	<b>\$ (39,095)</b>	<b>\$ 27,878</b>	<b>\$ (30,495)</b>

The REIT entered into swaps as follows:

- (1) To fix the interest rate at 3.67% per annum for the Series P senior debentures which settled upon maturity.
- (2) To fix the interest rate at 2.56% per annum for the U.S. \$130,000 term loan, which settled in March 2021.
- (3) 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.
- (4) To fix the interest rate at 3.91% per annum for the \$250,000 term loan.
- (5) To fix the payout on incentive units, which were settled in December 2021. The REIT realized a gain on a settlement of \$5,669.

\* 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 11).

# H&R REAL ESTATE INVESTMENT TRUST

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## 13. 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, 2021, 9,500,000 (December 31, 2020 - 9,500,000) special voting units are issued and outstanding. Subsequent to January 4, 2022, as a result of the gross-up (note 9), there were 9,500,000 special voting units issued and outstanding, entitling the holder thereof to 13,013,698 votes.

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:

	<b>December 31 2021</b>	December 31 2020
Balance, beginning of year	<b>286,863,083</b>	286,690,236
Issuance of Units:		
Incentive units settled in Units	<b>37,771</b>	172,847
Exchangeable units exchanged into Units	<b>1,538,993</b>	-
Balance, end of year	<b>288,439,847</b>	286,863,083

The weighted average number of basic Units for the year ended December 31, 2021 is 287,659,788 (December 31, 2020 - 286,804,156).

### (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.

Pursuant to the Arrangement, which was approved by the unitholders of the REIT on December 13, 2021, the REIT's outstanding options were adjusted to increase the number of Units into which they could be exercised and the exercise price was adjusted to reflect the impact of the Primaris Spin-Off and reflect that upon the exercise of options, option holders would only receive Units rather than (i) Units and (ii) units of Primaris REIT. In addition, the REIT's incentive units were similarly adjusted to reflect the impact of the Primaris Spin-Off by increasing the number of incentive units outstanding to reflect that upon settlement of incentive units, incentive unit holders would only receive Units rather than (i) Units and (ii) units of Primaris REIT. These arrangements were not considered modifications to the REIT's equity-based compensation plans and as a result had no impact on the REIT's consolidated financial statements.

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## 13. Unitholders' equity (continued):

### (i) Unit option plan:

As at December 31, 2021, a maximum of 17,723,110 (December 31, 2020 - 17,723,110) options to purchase Units were authorized to be issued; 11,660,809 (December 31, 2020 - 10,543,362) options have been granted and are outstanding and 6,062,301 (December 31, 2020 - 7,179,748) options remain available for granting. 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.

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

	December 31, 2021		December 31, 2020	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	10,543,362	\$ 20.55	10,647,642	\$ 20.57
Cancelled re Primaris Spin-Off*	(9,063,815)	20.49	-	-
Granted re Primaris Spin-Off*	12,416,164	14.96	-	-
Expired	(2,234,902)	19.30	(104,280)	23.10
Outstanding and vested, end of year	11,660,809	\$ 14.89	10,543,362	\$ 20.55

\* During 2021, pursuant to the Arrangement, which was approved by unitholders of the REIT on December 13, 2021, the REIT cancelled 9,063,815 options and granted 12,416,164 additional options to increase the number of Units into which such options could be exercised. Correspondingly, the exercise price was adjusted to reflect the impact of the Primaris Spin-Off and reflect that upon the exercise of options, option holders would only receive Units rather than (i) Units and (ii) units of Primaris REIT.

The outstanding and vested options at December 31, 2021 are exercisable at varying prices ranging from \$13.86 to \$16.93 (December 31, 2020 - \$18.98 to \$23.18) with a weighted average remaining life of 3.1 years (December 31, 2020 - 3.8 years).

In January 2022, a further 1,347,366 options expired (which had an exercise price of \$16.93).

### (ii) Incentive unit plan:

As at December 31, 2021, a maximum of 5,000,000 (December 31, 2020 - 5,000,000) incentive units exchangeable into Units were authorized to be issued. The REIT has granted 1,593,778 (December 31, 2020 - 1,093,375) incentive units which remain outstanding, 222,070 (December 31, 2020 - 184,299) incentive units have been settled for Units and 3,184,152 (December 31, 2020 - 3,722,326) 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, 2021, 64.68% of the restricted units granted vest on the third anniversary and 35.32% 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 February 2021, the grant of performance units awarded in 2018 vested at 0% of target and in March 2020, the first grant of performance units awarded in 2017 vested at 59% of target.



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## 13. Unitholders' equity (continued):

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

	December 31 2021	December 31 2020
	Incentive units	Incentive units
Outstanding, beginning of year	1,093,375	1,018,896
Granted	616,473	332,509
Cancelled re Primaris Spin-Off*	(212,089)	-
Granted re Primaris Spin-Off*	430,295	-
Expired	(75,435)	(34,662)
Settled	(258,841)	(223,368)
Outstanding, end of year	1,593,778	1,093,375

\* During 2021, pursuant to the Arrangement, which was approved by unitholders of the REIT on December 13, 2021, the REIT cancelled 212,089 incentive units and granted 430,295 additional incentive units to adjust the number of incentive units outstanding to reflect that upon settlement of incentive units, incentive unit holders would only receive Units rather than (i) Units and (ii) units of Primaris REIT.

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

	December 31 2021	December 31 2020
Options	\$ 4,435	\$ 789
Incentive units	10,585	8,934
	\$ 15,020	\$ 9,723

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

	2021	2020
Options	\$ 3,646	\$ (11,227)
Incentive units	4,579	886
	\$ 8,225	\$ (10,341)

### (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, 2021, the REIT declared distributions per Unit of \$1.42 comprised of (i) monthly cash distributions in aggregate of \$0.69 per Unit (December 31, 2020 - \$0.92 per Unit); (ii) a special cash distribution of \$0.10 per Unit (December 31, 2020 - nil); and (iii) a special distribution in Units of \$0.63 per Unit, which were immediately consolidated such that there was no change in the number of outstanding units (December 31, 2020 - nil).

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## 13. Unitholders' equity (continued):

### (d) Primaris Spin-Off:

The following are the recognized amounts of identifiable assets and liabilities which were part of the Primaris Spin-Off during the year ended December 31, 2021:

#### Non-cash items:

Investment properties	\$ 2,403,350
Other assets	14,942
Mortgages payable	(580,000)
Line of Credit	(143,000)
Accounts payable	(37,197)

#### Cash items:

Cash and cash equivalents	5,636
Transaction costs	6,500
<b>Net distribution to unitholders</b>	<b>\$ 1,670,231</b>

### (e) Normal course issuer bid:

On December 13, 2021, the REIT received approval from the TSX for the renewal of its normal course issuer bid ("NCIB") allowing the REIT to purchase for cancellation up to a maximum of 14,000,000 Units on the open market until the earlier of December 15, 2022 or the date on which the REIT purchased the maximum number of Units permitted under the NCIB. During the year ended December 31, 2021, the REIT did not purchase any Units for cancellation.

As of February 9, 2022, the REIT purchased and cancelled 4,222,700 Units at a weighted average price of \$13.00 per Unit, for a total cost of \$54,876.

## 14. Accumulated other comprehensive income:

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

	<i>Note</i>	December 31, 2021			December 31 2020
		Cash flow hedges	Foreign operations	Total	Total
Opening balance, beginning of year		\$ (193)	\$ 160,029	\$ 159,836	\$ 246,498
Transfer of realized loss on cash flow hedges to net income (loss)		30	-	30	30
Unrealized loss on translation of U.S. denominated foreign operations		-	(28,305)	(28,305)	(102,157)
Net gain on hedges of net investments in foreign operations	8	-	4,700	4,700	15,465
		30	(23,605)	(23,575)	(86,662)
Closing balance, end of year		\$ (163)	\$ 136,424	\$ 136,261	\$ 159,836

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## 15. Rentals from investment properties:

	2021	2020
Rental income	\$ 848,177	\$ 892,403
Revenue from services	198,179	198,286
Straight-lining of contractual rent	23,581	10,652
Rent amortization of tenant inducements	(4,557)	(2,661)
	<b>\$ 1,065,380</b>	<b>\$ 1,098,680</b>

### Operating leases:

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

	2021	2020
Less than 1 year	\$ 497,356	\$ 669,662
Between 1 and 5 years	1,536,487	2,113,392
More than 5 years	2,555,503	3,524,791
	<b>\$ 4,589,346</b>	<b>\$ 6,307,845</b>

## 16. Finance costs:

	Note	2021	2020
Finance cost - operations			
Contractual interest on mortgages payable		\$ 124,203	\$ 150,354
Contractual interest on debentures payable		62,244	41,379
Contractual interest on unsecured term loans		18,553	22,851
Bank interest and charges on lines of credit		7,363	16,303
Effective interest rate accretion		7,881	4,625
Accretion finance expense on Bow deferred revenue	10	8,944	-
Exchangeable unit distributions		11,088	13,966
		<b>240,276</b>	<b>249,478</b>
Capitalized interest <sup>(1)</sup>		<b>(3,398)</b>	<b>(20,609)</b>
		<b>236,878</b>	<b>228,869</b>
Finance income		(17,229)	(33,399)
Fair value adjustment on financial instruments		(43,859)	(82,974)
		<b>\$ 175,790</b>	<b>\$ 112,496</b>

<sup>(1)</sup> The weighted average rate of borrowings for the capitalized interest is 3.50% (December 31, 2020 - 3.60%).

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## 17. Supplemental cash flow information:

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

	2021	2020
Accrued rents receivable	\$ (25,244)	\$ (16,565)
Prepaid expenses and sundry assets	(3,674)	(9,125)
Accounts receivable	6,185	(8,258)
Accounts payable and accrued liabilities	50,416	33,770
	<b>\$ 27,683</b>	<b>\$ (178)</b>

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

	Note	2021	2020
Non-cash items:			
Non-cash adjustment to proceeds from issuance of Units		\$ 389	\$ 2,391
Non-cash assumption of mortgage payable on disposition of investment property	8(a)	(96,735)	-
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	9	25,264	-
Exchangeable into Primaris REIT units	9	(55,111)	-
Primaris Spin-Off	13(d)	1,658,095	-
Other items:			
Change in right-of-use asset	3	977	927
Change in debt interest payable included in finance cost - operations	11	1,746	1,430
Capitalized interest on redevelopment	16	(2,528)	(3,912)
Capitalized interest on properties under development	16	(870)	(16,697)

## 18. 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 2021	December 31 2020
Debt	\$ 3,894,906	\$ 6,368,316
Exchangeable units	216,841	197,796
Unitholders' equity	4,773,833	6,071,391
	<b>\$ 8,885,580</b>	<b>\$ 12,637,503</b>

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## 18. 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, 2021, this ratio was 37.1% (December 31, 2020 - 47.7%). 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, 2021 and December 31, 2020.

## 19. Risk management:

The COVID-19 virus has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus. These measures, which, over the course of the pandemic, have included measures such as 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 ongoing 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.

### (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: Hess Corporation, New York City Department of Health and Bell Canada. Each of these entities has a public debt rating, by a recognized rating agency, of at least BBB- Stable.

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

	Note	December 31 2021	December 31 2020
Mortgages receivable	6	\$ 191,008	\$ 425,486
Accounts receivable	6	6,130	19,618
		<b>\$ 197,138</b>	<b>\$ 445,104</b>

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## 19. 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 are available. As at December 31, 2021, the consolidated amount available under its lines of credit was \$952,443 (note 8(d));
- Maintaining a large unencumbered asset pool. As at December 31, 2021, there were 104 unencumbered properties with a fair value of \$3,985,370; 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	2022	Thereafter	Total
Debt <sup>(1)</sup>	8	\$ 316,025	\$ 3,593,644	\$ 3,909,669
Accounts payable and accrued liabilities <sup>(2)</sup>	11	306,770	57,054	363,824
		<b>\$ 622,795</b>	<b>\$ 3,650,698</b>	<b>\$ 4,273,493</b>

<sup>(1)</sup> Amounts in the above table only include principal repayments.

<sup>(2)</sup> 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 nil (2020 - U.S. \$470,000 consisting of the 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. \$1,679,000 (2020 - U.S. \$1,650,000).

A \$0.10 weakening of the U.S. dollar against the average Canadian dollar exchange rate of \$1.25 for the year ended December 31, 2021 (December 31, 2020 - \$1.34) as well as the Canadian dollar exchange rate as at December 31, 2021 of \$1.26 (December 31, 2020 - \$1.27) would have decreased other comprehensive income (loss) by approximately \$168,000 (December 31, 2020 - \$212,000) and decreased net income by approximately \$6,300 (December 31, 2020 - \$9,100). 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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## 19. 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, 2021, the percentage of fixed rate debt to total debt was 99.7% (December 31, 2020 - 92.0%). 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, 2021, lines of credit of \$12,500 (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, 2021 would have decreased net income by approximately \$100 (December 31, 2020 - \$5,100). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

As at December 31, 2021, 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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## 19. Risk management (continued):

December 31, 2021	Note	Level 1	Level 2	Level 3	Total fair value	Carrying value
<b>Assets measured at fair value</b>						
Investment properties	3	\$ -	\$ -	\$ 8,581,100	\$ 8,581,100	\$ 8,581,100
Properties under development	3	-	-	481,432	481,432	481,432
Mortgages receivable	6	-	69,525	-	69,525	69,525
<b>Assets for which fair values are disclosed</b>						
Mortgages receivable	6	-	120,943	-	120,943	121,483
		-	190,468	9,062,532	9,253,000	9,253,540
<b>Liabilities measured at fair value</b>						
Exchangeable units	9	(216,841)	-	-	(216,841)	(216,841)
Derivative instruments	11	-	(11,217)	-	(11,217)	(11,217)
<b>Liabilities for which fair values are disclosed</b>						
Mortgages payable	8(a)	-	(1,914,822)	-	(1,914,822)	(1,837,281)
Debentures payable	8(b)	-	(1,602,789)	-	(1,602,789)	(1,545,125)
Unsecured term loans	8(c)	-	(500,616)	-	(500,616)	(500,000)
Lines of credit	8(d)	-	(12,517)	-	(12,517)	(12,500)
		(216,841)	(4,041,961)	-	(4,258,802)	(4,122,964)
		\$ (216,841)	\$ (3,851,493)	\$ 9,062,532	\$ 4,994,198	\$ 5,130,576

December 31, 2020	Note	Level 1	Level 2	Level 3	Total fair value	Carrying value
<b>Assets measured at fair value</b>						
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
<b>Assets for which fair values are disclosed</b>						
Mortgages receivable	6	-	186,458	-	186,458	184,770
		-	189,652	12,058,745	12,248,397	12,246,709
<b>Liabilities measured at fair value</b>						
Exchangeable units	9	(197,796)	-	-	(197,796)	(197,796)
Derivative instruments	11	-	(42,289)	-	(42,289)	(42,289)
<b>Liabilities for which fair values are disclosed</b>						
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)
		\$ (197,796)	\$ (6,475,147)	\$ 12,058,745	\$ 5,385,802	\$ 5,638,308



# 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, 2021 and 2020

## 20. 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.

	2021	2020
Salaries and short-term employee benefits	\$ 6,322	\$ 6,359
Unit-based compensation	6,956	(9,518)
	<b>\$ 13,278</b>	<b>\$ (3,159)</b>

## 21. 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, 2021 and December 31, 2020 are as follows:

December 31, 2021	Office	Retail	Industrial	Residential	Total
Number of investment properties	28	292	72	23	415
Real estate assets:					
Investment properties	\$ 4,370,548	\$ 1,800,594	\$ 1,225,733	\$ 3,008,834	\$ 10,405,709
Properties under development	8,509	8,309	135,996	551,114	703,928
	<b>4,379,057</b>	<b>1,808,903</b>	<b>1,361,729</b>	<b>3,559,948</b>	<b>11,109,637</b>
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	-	(841,772)	(34,344)	(1,113,680)	(1,989,796)
Less: REIT's proportionate share of assets classified as held for sale relating to equity accounted investments	-	-	-	(57,309)	(57,309)
	<b>\$ 4,379,057</b>	<b>\$ 967,131</b>	<b>\$ 1,327,385</b>	<b>\$ 2,388,959</b>	<b>\$ 9,062,532</b>
<hr/>					
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)
	<b>\$ 5,132,722</b>	<b>\$ 3,083,227</b>	<b>\$ 1,306,730</b>	<b>\$ 2,076,300</b>	<b>\$ 11,598,979</b>

# 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, 2021 and 2020**

## 21. Segmented disclosures (continued):

Property operating income by reportable segment for the years ended December 31, 2021 and December 31, 2020 is as follows:

	Office	Retail	Industrial	Residential	Sub-total	Less: Equity Accounted Investments	Year ended December 31, 2021
Rentals from investment properties	\$ 502,387	\$ 387,215	\$ 81,171	\$ 201,597	\$ 1,172,370	\$ (106,990)	\$ 1,065,380
Property operating costs	(164,421)	(154,671)	(21,486)	(98,099)	(438,677)	34,879	(403,798)
Property operating income	\$ 337,966	\$ 232,544	\$ 59,685	\$ 103,498	\$ 733,693	\$ (72,111)	\$ 661,582

	Office	Retail	Industrial	Residential	Sub-total	Less: Equity Accounted Investments	Year ended December 31, 2020
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

### (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 2021	December 31 2020
Real estate assets:		
Canada	\$ 4,919,056	\$ 7,599,011
United States	6,190,581	6,296,707
	11,109,637	13,895,718
Less: assets classified as held for sale	-	(219,050)
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	(1,989,796)	(2,066,596)
Less: REIT's proportionate share of assets classified as held for sale relating to equity accounted investments	(57,309)	(11,093)
	\$ 9,062,532	\$ 11,598,979
	2021	2020
Rentals from investment properties:		
Canada	\$ 767,354	\$ 798,614
United States	405,016	419,868
	1,172,370	1,218,482
Less: REIT's proportionate share of rentals relating to equity accounted investments	(106,990)	(119,802)
	\$ 1,065,380	\$ 1,098,680

# 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, 2021 and 2020**

## 22. Income tax expense (recovery):

	2021	2020
Income tax computed at the Canadian statutory rate of nil applicable to the REIT for 2021 and 2020	\$ -	\$ -
Current U.S. income taxes	1,081	259
Deferred income taxes (recoveries) applicable to U.S. Holdco	4,458	(54,000)
<b>Income tax expense (recovery) in the determination of net income (loss)</b>	<b>\$ 5,539</b>	<b>\$ (53,741)</b>

The Tax Act contains legislation (the "SIFT Rules") affecting the tax treatment of "specified investment flow-through" ("SIFT") trusts. A SIFT includes a publicly-traded trust. Under the SIFT Rules, distributions of certain income by a SIFT are not deductible in computing the SIFT's taxable income, and a SIFT is subject to tax on such income at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. The SIFT Rules do not apply to a publicly-traded trust that qualifies as a real estate investment trust under the Tax Act, 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 23.8% (2020 - 23.5%). 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 2021	December 31 2020
<b>Deferred tax assets:</b>		
Net operating losses	\$ 76,655	\$ 73,346
Accounts payable and accrued liabilities	902	691
Other assets	-	2,779
	<b>77,557</b>	<b>76,816</b>
<b>Deferred tax liabilities:</b>		
Investment properties	301,063	302,993
Equity accounted investments	126,995	122,578
	<b>428,058</b>	<b>425,571</b>
<b>Deferred tax liability</b>	<b>\$ (350,501)</b>	<b>\$ (348,755)</b>

The change in deferred tax liability is the result of deferred income tax expense of \$4,458 (2020 - recovery of \$54,000) and a foreign currency translation gain of \$2,712 (2020 - gain of \$6,626) recognized in other comprehensive loss.

As at December 31, 2021, U.S. Holdco had accumulated net operating losses available for carryforward for U.S. income tax purposes of \$322,730 (December 31, 2020 - \$312,579). 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.

## 23. 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, 2021, the REIT has outstanding letters of credit totalling \$20,057 (December 31, 2020 - \$31,797), including \$1,890 (December 31, 2020 - \$12,470) which has been pledged as security for certain mortgages payable. The letters of credit may be secured by certain investment properties.
- (b) The REIT provides guarantees on behalf of third parties, including co-owners. As at December 31, 2021, the REIT issued guarantees amounting to \$121,697, which expire between 2022 and 2023 (December 31, 2020 - \$177,176, which expire between 2021 and 2023), relating to the co-owner's share of mortgage liability.

# 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, 2021 and 2020

## 23. Commitments and contingencies (continued):

The REIT continues to guarantee certain debt in connection with the Primaris Spin-Off, and will remain liable until such debts are extinguished or the lenders agree to release the REIT's guarantees. As at December 31, 2021, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is \$580,000 (note 13(d)) (December 31, 2020 - nil), which expires between 2022 and 2030. In addition, the REIT provides guarantees on behalf of the co-owners of certain of Primaris REIT's properties. As at December 31, 2021, the REIT issued guarantees amounting to \$111,120, which expire between 2022 and 2027 (December 31, 2020 - \$112,972, which expire between 2021 and 2027). There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in these 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.

## 24. Subsidiaries:

Name of Entity	Place of Business	Ownership interest	
		December 31 2021	December 31 2020
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%
PRR Trust	Canada	-	100%

## 25. Subsequent events:

- (a) On January 4, 2022, the Board exercised its gross-up option which provides that upon exchange of exchangeable units of the REIT, instead of delivering to exchangeable unit holders (i) Units and (ii) units of Primaris REIT, the REIT would deliver additional Units to such holders upon exchange, and the votes associated with the special voting units would reflect the number of votes associated with the Units deliverable upon exchange. Subsequent to this gross-up, there were 13,344,071 exchangeable units outstanding, exchangeable into 18,279,546 Units including 9,500,000 special voting units, entitling the holder thereof to 13,013,698 votes (note 9).
- (b) On January 10, 2022, the REIT exchanged its exchangeable units of a subsidiary of Primaris REIT into Primaris REIT units (note 6).
- (c) As at February 9, 2022, the REIT purchased and cancelled 4,222,700 Units at a weighted average price of \$13.00 per Unit, for a total cost of \$54,876, under the renewal of its NCIB (note 13(e)).
- (d) In February 2022, the REIT repaid 10 mortgages for an aggregate amount of approximately \$21,500 at the REIT's share, with a weighted average interest rate of 3.96% per annum.
- (e) In February 2022, the REIT repaid one U.S. mortgage, prior to maturity, of approximately U.S. \$31,600 bearing interest at 3.86% per annum. The REIT incurred a prepayment penalty of approximately U.S. \$2,600.

# BOARD OF TRUSTEES

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**Thomas J. Hofstedter**<sup>(1)</sup>  
President and Chief Executive Officer, H&R REIT

**Mark Cowie**<sup>(1)</sup>  
Principal, Cowie Capital Partners

**Jennifer Chasson**<sup>(2)</sup>  
Founder & President, Springbank Capital Corporation

**Stephen Gross**<sup>(1)</sup>  
Principal, Initial Corporation

**Brenna Haysom**<sup>(3)</sup>  
Chief Executive Officer, Rally Labs

**Ashi Mathur**<sup>(3)</sup>  
President, Marlin Spring

**Juli Morrow**  
Partner, Goodmans LLP

**Marvin Rubner**<sup>(1)(2)</sup>  
Manager & Founder, YAD Investments Limited

**Ronald C. Rutman**<sup>(2,3)</sup>  
Partner, Zeifman & Company, Chartered Accountants

(1) Investment Committee

(2) Audit Committee

(3) Compensation, Governance and Nominating Committee

# SENIOR MANAGEMENT TEAM

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**Thomas J. Hofstedter**, President and Chief Executive Officer

**Philippe Lapointe**, President (Lantower Residential)

**Larry Froom**, Chief Financial Officer

**Robyn Kestenberg**, Executive Vice-President, Office & Industrial

**Emily Watson**, Chief Operating Officer, Property Management (Lantower Residential)

**Cheryl Fried**, Executive Vice-President, Finance (H&R REIT)

**Blair Kundell**, Executive Vice-President, Operations (H&R REIT)

**Audrey Craig**, Executive Vice President, Accounting (Lantower Residential)

**Tony Duplisse**, Executive Vice President, Investments (Lantower Residential)

**Hunter Webb**, Executive Vice President, Investments (Lantower Residential)

**Colleen Grahn**, President, Property Management (Lantower Residential)



# CORPORATE INFORMATION

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**AUDITORS:** KPMG LLP

**LEGAL COUNSEL:** Blake, Cassels & Graydon LLP

**TAXABILITY OF DISTRIBUTIONS:** The REIT's cash distributions amounted to \$0.79 per Unit during 2021 (including a \$0.10 per Unit special cash distribution to unitholders of record on December 31, 2021). Of these cash distributions, 3.9% will be designated as capital gains. The REIT also made a special distribution to unitholders of record on December 31, 2021 of \$0.63 per Unit payable in additional Units, which were immediately consolidated such that there was no change in the number of outstanding Units. 100% of the special distribution payable in Units will be designated as capital gains. The amount of the special distribution payable in Units (\$0.63 per Unit) will increase the adjusted cost basis ("ACB") of unitholders' consolidated Units prior to the apportionment of ACB to Primaris REIT units.

**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:** TSX 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](mailto:inquiries@canstockta.com), Website: [www.canstockta.com](http://www.canstockta.com).

**CONTACT INFORMATION:** Investors, investment analysts and others seeking financial information should go to our website at [www.hr-reit.com](http://www.hr-reit.com), or e-mail [info@hr-reit.com](mailto:info@hr-reit.com), or call 416-635-7520 and ask for Larry Froom, Chief Financial Officer, or 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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