



2022

ANNUAL REPORT

Lantower River Landing
Miami, FL





Lantower River Landing
Miami, FL

ABOUT H&R REIT

H&R REIT is one of Canada's largest real estate investment trusts with total assets of approximately \$11.7 billion as of December 1, 2022. H&R REIT has ownership interests in a North American portfolio comprised of high-quality residential, industrial, office and retail properties comprising over 28.7 million square feet. H&R is currently undergoing a strategic repositioning to transform into a simplified, growth-oriented company focusing on residential and industrial properties to surface significant value for unitholders.

ABOUT THE COVER

Located in Miami, FL, River Landing is adjacent to the Health District with approximately 1,000 feet of waterfront on the Miami River, two miles from downtown Miami. The 8.14-acre commercial and residential complex consists of approximately 341,848 square feet of retail and restaurant space, 149,178 square feet of Class A office, 528 residential rental units, more than 2,000 parking spaces, a 50-foot wide landscaped linear park on the riverfront, and green spaces.

ABOUT FORWARD LOOKING STATEMENTS DISCLAIMER:

This document includes statements that are forward-looking because they are based on management's expectations about the future -they are not historical facts. Forward-looking statements include statements regarding H&R REIT's future plans, including the REIT's transformational strategic repositioning plan, including the objectives thereof, advancing rezoning of existing properties, the continued recycling of non-core office and retail properties and the exit over time from office retail, the expected sale of 160 Elgin Street, H&R REIT's positioning for 2023, and other statements. 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 REIT's current beliefs and are based on information currently available to management. For more information and a caution about using forward-looking information, see Section I, "Forward Looking Disclaimer" in the Management's Discussion and Analysis for the period ended December 31, 2022.



FEBRUARY 13, 2023

FELLOW UNITHOLDERS,



**TOM
HOFSTEDTER**
Executive
Chairman & CEO

2022 was a very important year for H&R REIT. Despite the volatility in the public markets, our teams accomplished many significant milestones aligned with our simplification strategy through capital recycling, unit buy backs, an increase in distributions and a renewed focus on our investor communication program. Through these actions, we have enhanced our geographical exposure, asset mix, and tenant diversification, enhanced our balance sheet with reduced leverage, driving strong operating and financial results, while also strengthening relationships with the investment community.

TRANSFORMATIONAL STRATEGIC REPOSITIONING PLAN

The Transformational Strategic Repositioning Plan announced in the fall of 2021 was developed to align H&R with investor demand and preferences for a simplified, growth-oriented company. Now, a year and a half later, we are very pleased to say that we are well on our way to realizing our transformation, to be a leading owner, operator and developer of high growth U.S. sunbelt and gateway city residential properties, and well-located industrial properties.

OUR STRATEGY IS DEFINED BY THREE KEY CONCEPTS:

- 1. Reposition** through meaningful and deliberate capital allocation by recycling capital out of office and retail properties and redeploying capital into high-returning investment opportunities including the repurchase of our Units at a substantial discount to Net Asset Value ("NAV") per Unit. Additionally, the REIT has approximately \$900 million of properties advancing through the rezoning process.
- 2. Grow** exposure to high growth class A residential properties in U.S. gateway and sunbelt cities, and institutional-quality distribution-focused industrial properties.
- 3. Diversified to Simplified** by streamlining our operating platform we are creating a very compelling investment profile for our Unitholders, offering both value and growth.

Our Units are trading at a significant discount to where we believe their true intrinsic value lies, and it is this gap that we are committed to closing.



**PHILIPPE
LAPOINTE**
President

PROGRESS TOWARDS SIMPLIFICATION

2022 was a significant year for capital allocation, where the team made large strides in repositioning our company.

In 2022, we sold over \$463 million in non-core properties and reallocated much of that capital to buy back Units through our Normal Course Issuer Bid. During the year, we bought back and canceled almost \$300 million of H&R's outstanding Units, or 22.9 million Units, at a 40% discount to the REIT's NAV per Unit, creating \$0.66 in NAV per Unit⁽¹⁾.

On the development front, our \$370 million of industrial and U.S. sunbelt residential properties are progressing well with embedded value and growth to be realized over the next two years. Given the current macroeconomic environment, we've taken a cautious approach, and have paused 16 development projects until we have more visibility into the timing of future stability.

Concurrent with our increasing exposure to residential, Philippe Lapointe was promoted to President of H&R in May of last year, strengthening our executive leadership team by having him take a more influential role within investment strategy, capital redeployment and investor relations.

As a result of all the heavy lifting by our teams, streamlining and simplifying our company, our 2022 financial and operating results are very strong.

In 2023, we plan to continue to recycle out of non-core office and retail properties and are off to a great start with the anticipated \$277 million sale of 160 Elgin Street in Ottawa, Ontario. The disposition program will continue to carefully synchronize property sales to match our capital funding requirements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

At H&R, we value diversity, recognizing the strengths and insights that are realized from a blend of cultures, wisdom and experiences. We are proud to report that 38% of the Board of Trustees are women, and women comprise 43% of our executives. In addition to Board diversity, H&R is honoured to have been recognized in 2022 as one of the premier organizations in Canada by the Globe & Mail's Women Lead Here initiative, for the third consecutive year.

Climate change and Greenhouse (GHG) emissions reduction are key pieces of our ESG strategy, and in 2021, H&R's like-for-like GHG market-based emissions decreased by over 2.5% compared to 2020. Each year we are increasing our utility data coverage and as of 2021 we reported on 67% of our portfolio.

We completed our first GRESB Real Estate Assessment submission in 2022 and launched our inaugural [Green Financing Framework](#), with a second party opinion. H&R continues to embed sustainability in every facet of our business, advancing our long term ESG strategy focused on resource reduction, the promotion of energy efficiency and engaging with tenants to support and enable ESG initiatives.

REPOSITIONED FOR GROWTH

Equipped with a strong balance sheet, significant liquidity and enhanced portfolio concentration to high growth markets with strong population and economic growth, we are very well positioned to take advantage of opportunities in 2023.

Despite the persistent volatility in the markets our strategy is resonating, and investors are supportive on our plan, our execution to date and the direction in which we are heading. Recognizing that there is still a lot of important work ahead of us, we are well on our way to creating a simplified growth-oriented REIT that will surface significant value for our Unitholders.

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 to which our Units trade to the REIT's NAV per Unit. Management, members of the Board and their families collectively own more than \$300 million, or approximately 9% of the 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 2022, and we thank our loyal and hard-working employees for their tireless commitment and dedication throughout this considerable period of change at H&R. The past year has once again demonstrated to us just how critical our team members are to the success of our company and we are excited about what's to come in 2023.

Respectfully,



TOM HOFSTEDTER
Executive Chairman &
Chief Executive Officer



PHILIPPE LAPOINTE
President

1. NAV 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, 2022, available at www.hr-reit.com and on the REIT's profile on SEDAR at www.sedar.com, which is incorporated by reference herein.

Source: S&P Global Market Intelligence

EXPERIENCED AND TENURED EXECUTIVE TEAM
A RESULTS-ORIENTED LEADERSHIP TEAM



TOM HOFSTEDTER
Executive Chairman & CEO



PHILIPPE LAPOINTE
President



LARRY FROOM, CPA/CA
CFO



ROBYN KESTENBERG
EVP, Office & Industrial



CHERYL FRIED CPA/CA
EVP, Finance



BLAIR KUNDELL
EVP, Operations



MATT KINGSTON
EVP, Development
& Construction



EMILY WATSON
COO,
Lantower Residential



COLLEEN GRAHN
President, Property
Management
Lantower Residential



HUNTER WEBB
EVP, Development
Lantower Residential



TONY DUPLISSE
EVP, Portfolio
Management
Lantower Residential

TRANSFORMATIONAL STRATEGIC REPOSITIONING PLAN

REPOSITIONING FOR GROWTH



DIVERSIFIED TO SIMPLIFIED

- Greater exposure to **higher growth asset classes**
- Greater exposure to **higher-growth markets**
- **Stronger and flexible balance sheet** to support growth



GROWTH

- **Grow class A residential** property exposure through acquisitions and developments in **high growth U.S. gateway and sunbelt cities**
- **Build and expand the institutional-quality distribution-focused industrial platform** through acquisition and development
- **Advance the rezoning** for redevelopment of approximately \$800 million of office properties into upscale residential properties within growing markets



REPOSITION

- **Exit Retail** Over Time
- **Exit Office** Over Time

Supported by a strong, flexible balance sheet with an investment-grade credit rating

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

For the year ended December 31, 2022

Dated: February 13, 2023

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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, 2022 includes material information up to February 13, 2023. Financial data for the years ended December 31, 2022 and 2021 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, 2022 ("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. Pursuant to the Arrangement, each holder of Units (as defined herein) 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 the REIT to Primaris REIT have been included for the entire 2021 calendar year in the REIT's consolidated statements of comprehensive income for the year ended December 31, 2021 and the REIT's consolidated statements of cash flows 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.

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", "Liabilities and Unitholders' Equity", "Segmented Information", "Liquidity and Capital Resources", "Environmental, Social and Governance" 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 2022 Highlights" including with respect to H&R's future plans and targets, H&R's intention to continue disposing of properties in 2023, H&R's strategy to grow its exposure to residential assets in U.S. sunbelt and gateway cities, the ability of H&R to capture potential upside in the Calgary office market, expected Unit repurchases and their potential impact on unitholders, significant development projects, leasing of the REIT's investment properties and the termination of existing leases, H&R's expectation with respect to the future developments and activities of its development properties, including the development and use of new properties, the expected yield on cost from the REIT's development properties, the timing of construction and completion, expected construction costs, anticipated number of units and square footage, expected timing of approvals, H&R's expectations and intentions with respect to zoning and rezoning requests, the impact of the REIT's commitment to sustainability on its portfolio, the value of assets and liabilities held for sale, 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, 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 assumptions relating to the general economy, including the effects of increased inflation; debt markets continue to provide access to capital at a reasonable cost, notwithstanding rising interest rates; and assumptions concerning currency exchange and interest rates. Additional risks and uncertainties include, among other things, those related to: real property ownership; current economic environment; credit risk and tenant concentration; lease rollover risk; interest rate and other debt-related risks; development risks; residential rental risk; capital expenditure risk; currency risk; liquidity risk; risks associated with disease outbreaks; cyber security risk; financing credit risk; ESG and climate change risk; co-ownership interest in properties; general uninsured losses; joint arrangement and investment risks; dependence on key personnel and succession planning; potential acquisition, investment and disposition opportunities and joint venture arrangements; potential undisclosed liabilities associated with acquisitions; competition for real property investments; Unit prices; potential conflicts of interest; availability of cash for distributions; credit ratings; ability to access capital markets; dilution; unitholder liability; redemption right; debentures; tax risk; additional tax risks applicable to unitholders; investment eligibility; and statutory remedies. 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 13, 2023 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.

OVERVIEW

H&R is one of Canada's largest real estate investment trusts with total assets of approximately \$11.4 billion as at December 31, 2022. H&R has ownership interests in a North American portfolio comprised of high-quality residential, industrial, office and retail properties totalling approximately 28.8 million square feet. 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 Net asset value ("NAV") per Unit through ongoing active management of H&R's assets and the development and construction of projects.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

As one of Canada's largest REITs, H&R strives to lead by example and be a part of the ever-changing journey to a more sustainable future. Having an integrated and forward-thinking sustainability program is of utmost importance. 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 views 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 the communities in which the REIT's employees live and the REIT does business.

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.

In the fall of 2022, H&R launched its Green Financing Framework, designed to support the REIT's sustainability strategy as it continues to expand its building portfolio in an environmentally and socially responsible way. In support of H&R's strategy, H&R has established a Green Financing Framework ("the Framework") which aligns with the Green Bond Principles (the "GBP") developed by the International Capital Markets Association as of June 2021 and the Green Loan Principles (the "GLP") developed by the Loan Market Association as of February 2021. Morningstar Sustainalytics supplied a Second-Party Opinion confirming the Framework is credible, impactful and aligns with the four core components of the GBP and the GLP, each published in 2021.

H&R is proud to have shared its third annual Sustainability Report in the Fall of 2022, highlighting Environmental, Social and Governance ("ESG") initiatives and accomplishments for the 2021 calendar year. H&R's third annual Sustainability Report outlines

the REIT's ESG framework and the REIT's commitment to drive sustainable performance and improvement. H&R continues to work alongside Brightly Software (previously 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;
- For the 2021 reporting period, H&R updated its reporting boundary to follow the 'Operational Control' approach, as defined by the Greenhouse Gas ("GHG") Protocol, to align with recent industry trends and the latest reporting guidance for real estate organizations. Under the operational control approach, 100% of emissions are reported from operations in which H&R or one of its subsidiaries has operational control;
- H&R is reporting on select Global Reporting Initiative (GRI) indicators, as well as select Sustainability Accounting Standards Board (SASB) indicators. 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 (2021 CDP Reporting);
- H&R's like-for-like GHG market-based emissions decreased by over 2.5% in 2021 compared to 2020; equivalent to taking 556 passenger vehicles off the road, according to the United States Environmental Protection Agency⁽¹⁾;
- H&R's like-for-like electricity use decreased by 3.7% in 2021 compared to 2020; this reduction is equivalent to the electricity use of 1,396 single-family homes in Ontario, according to the Ontario Energy Board⁽²⁾;
- H&R's like-for-like water use decreased by 2% in 2021 compared to 2020; equivalent to the annual household water use of 303 people, according to the U.S. Geological Survey⁽³⁾;
- To further expand utility data coverage, H&R has implemented waste tracking at H&R managed properties. 2021 was the first year for which H&R compiled and reported on waste data for properties wherever H&R manages waste collection and is able to access diversion reports. As a result, GHG emissions associated with waste have not been included in the like-for-like comparison above;
- The COVID-19 pandemic caused a significant reduction in office and retail building GHG emission, energy and water use since early 2020. In 2021, emissions were broadly similar to 2020 levels with variations based on asset class and region related to differing tenant types and public health interventions;
- H&R engaged KPMG LLP ("KPMG") to provide limited assurance over selected Scope 1 and 2 data for GHG emissions in the Sustainability Report for the year ended December 31, 2021. The scope of KPMG's engagement and their limited assurance report can be found in the Appendix of the Sustainability Report and Supplement, available on the REIT's website;
- 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, 2021, 71% of H&R's Office portfolio (based on net rentable area) was LEED, BOMA Best and/or ENERGY STAR Certified;
- H&R submitted to the 2022 GRESB Real Estate Assessment, exemplifying the REIT's continued commitment to embed sustainability in every facet of the REIT's business and advance the REIT's long-term ESG strategy; and
- H&R has well established governance structures such as the Board Investment Committee to oversee and approve acquisitions in line with the REIT's strategic plan. 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.

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

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

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

Social

- As at December 31, 2022, 40% of H&R's Tier 1 and 2 Executives and 44% of H&R's Tier 3 Executives were women. Overall, 38% of H&R's workforce were women. As well, 37.5% of the members of the REIT's Board of Trustees (the "Board") were women, achieving the 30% Club Canada's aim for better gender balance at the board level;
- 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, 2021 and 2022;
- H&R's corporate and on-site staff participate in employee and community charity initiatives and programs. In addition, H&R is proud to support the efforts of its residential division ("Lantower Residential") with its Living to Giving program which works with several reputable charitable organizations to provide food, shelter and resources to local communities;
- 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 added a Group Retirement Savings Program with a corporate match to encourage employee savings;
- H&R offers professional fee reimbursement and contributions to relevant professional development courses;
- H&R has assisted employees with time off, flexible hours and extended leaves of absence to promote good health and pursue their outside interests and goals; and
- H&R has a human rights policy and diversity policy which can be found on H&R's website.

Governance

- Use of a code of business conduct and ethics policy, whistle-blower policy, trading policy and disclosure and social media policy;
- Implemented a Human Rights policy to reinforce/formalize H&R's belief that all tenants, suppliers and employees be treated with respect;
- On an annual basis, each employee acknowledges that they have reviewed the REIT's corporate policies 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;
- Majority independent Board, with 75% of the Board being fully independent as at December 31, 2022;
- Use of an independent Lead Trustee to encourage independent leadership among the trustees;
- 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.

For H&R's Sustainability Policy and additional information about its Sustainability Committee, Report and Supplement, visit H&R's website under "Investor Relations - Sustainability". For H&R's Green Financing Framework and Second-Party Opinion, visit H&R's website under Sustainability. The contents of the REIT's website, including the REIT's Sustainability Policy, Sustainability Report and Supplement, Green Financing Framework and Second Party Opinion of Green Financing Framework, are expressly not incorporated by reference into, and do not form part of, this MD&A.

SECTION II

PORTFOLIO SUMMARY

(in thousands of Canadian dollars, except for statistics)

(Q4 2022 excludes the Bow and 100 Wynford and Q4 2021 excludes the Bow)

	Q4 2022	Q4 2021
Residential:⁽¹⁾		
Number of properties	24	23
Square feet	7,498	7,591
Residential rental units	8,164	8,305
Occupancy	94.5%	95.2%
Contractual mortgages payable including liabilities classified as held for sale	\$1,837,890	\$1,678,045
Investment properties including assets classified as held for sale	\$3,877,344	\$3,008,834
Capitalization rate	4.20%	4.34%
Rentals from investment properties	\$69,651	\$57,452
Net operating income	\$45,742	\$38,968
Same-Property net operating income (cash basis) ⁽²⁾	\$34,059	\$29,351
Industrial:⁽¹⁾		
Number of properties	74	72
Square feet	8,759	8,561
Occupancy	97.9%	97.6%
Average remaining term to maturity of commercial leases (in years)	5.5	5.6
Contractual mortgages payable including liabilities classified as held for sale	\$274,687	\$316,739
Investment properties including assets classified as held for sale	\$1,490,939	\$1,225,733
Capitalization rate	5.16%	5.20%
Rentals from investment properties	\$22,012	\$19,254
Net operating income	\$16,791	\$14,082
Same-Property net operating income (cash basis) ⁽²⁾	\$15,222	\$13,583
Office:⁽¹⁾		
Number of properties	25	27
Square feet	6,803	7,349
Occupancy	98.6%	99.2%
Average remaining term to maturity of commercial leases (in years)	7.5	8.8
Contractual mortgages payable including liabilities classified as held for sale	\$256,074	\$455,245
Investment Properties including assets classified as held for sale	\$3,007,995	\$3,327,630
Capitalization rate	6.43%	6.09%
Rentals from investment properties	\$86,984	\$83,050
Net operating income	\$57,492	\$55,849
Same-Property net operating income (cash basis) ⁽²⁾	\$49,669	\$47,862
Retail:⁽¹⁾		
Number of properties	281	292
Square feet	5,711	6,075
Occupancy	95.3%	93.8%
Average remaining term to maturity of commercial leases (in years)	8.6	8.8
Contractual mortgages payable including liabilities classified as held for sale	\$127,543	\$138,089
Investment properties including assets classified as held for sale ⁽³⁾	\$1,718,371	\$1,800,594
Capitalization rate	6.40%	6.21%
Rentals from investment properties	\$36,346	\$101,128
Net operating income	\$29,392	\$60,442
Same-Property net operating income (cash basis) ⁽²⁾	\$25,719	\$21,660
Total:⁽¹⁾		
Number of properties	404	414
Square feet	28,771	29,576
Occupancy	96.6%	96.6%
Average remaining term to maturity of commercial leases (in years)	7.4	8.3
Contractual mortgages payable including liabilities classified as held for sale	\$2,496,194	\$2,588,118
Investment properties including assets classified as held for sale ⁽³⁾	\$10,094,649	\$9,362,791
Capitalization rate	5.37%	5.43%
Rentals from investment properties	\$214,993	\$260,884
Net operating income	\$149,417	\$169,341
Same-Property net operating income (cash basis) ⁽²⁾	\$124,669	\$112,456

⁽¹⁾ All figures have been reported at the REIT's proportionate share, which is a non-generally accepted accounting principles ("GAAP") measure defined in the "Non-GAAP Measures" section of this MD&A.

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

⁽³⁾ Includes a right-of-use asset in a leasehold interest for Q4 2022 and Q4 2021 of \$35.6 million and \$31.0 million, respectively (included within equity accounted investments), which was measured at an amount equal to the corresponding lease liabilities.

KEY PERFORMANCE DRIVERS

The following table is presented at the REIT's proportionate share by H&R's reportable operating segments and includes investment properties classified as assets held for sale shown.

OPERATIONS		Residential	Industrial	Office ⁽³⁾	Retail	Total
Occupancy as at December 31	2022	94.5%	97.9%	98.6%	95.3%	96.6%
	2021	95.2%	97.6%	99.2%	93.8%	96.6%
Occupancy – Same-Property as at December 31 ⁽¹⁾	2022	95.1%	99.1%	98.7%	95.3%	97.2%
	2021	95.3%	97.5%	99.1%	93.9%	96.6%
Average annual contractual rent per sq.ft. for the twelve months ended December 31-Canadian properties ⁽²⁾	2022	N/A	\$8.14	\$21.47	\$12.08	\$13.09
	2021	N/A	\$7.30	\$20.67	\$11.80	\$12.77
Average annual contractual rent per sq.ft. for the twelve months ended December 31-U.S. properties (USD) ⁽²⁾	2022	\$26.53	\$4.16	\$35.32	\$19.17	\$24.70
	2021	\$23.79	\$4.11	\$36.04	\$19.18	\$23.18
Average remaining term to maturity of leases as at December 31 (in years)	2022	N/A	5.5	7.5	8.6	7.4
	2021	N/A	5.6	8.8	8.8	8.3
Average remaining term to maturity of mortgages payable as at December 31 (in years)	2022	5.4	3.6	5.2	7.8	5.3
	2021	6.4	4.2	3.8	8.2	5.8

⁽¹⁾ Same-Property refers to those properties owned by H&R for the two-year period ended December 31, 2022.

⁽²⁾ Excludes properties sold in their respective year.

⁽³⁾ The Bow (as defined below) has been excluded from the above 2022 and 2021 statistics as it was legally sold in October 2021. 100 Wynford (as defined below) has been excluded from the 2022 statistics as it was legally sold in August 2022. Refer to the "Liabilities & Unitholders' Equity - Deferred Revenue" section of this MD&A for further information on the accounting treatment of these two dispositions.

PORTFOLIO OVERVIEW

The geographic diversification of the portfolio of investment 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, 2022 in the tables below:

Number of Properties ⁽¹⁾⁽²⁾	Canada				United States	Total
	Ontario	Alberta	Other	Subtotal		
Residential ⁽³⁾	—	—	—	—	24	24
Industrial	36	17	18	71	3	74
Office	14	2	4	20	5	25
Retail	30	1	7	38	243	281
Total	80	20	29	129	275	404

Square Feet (in thousands) ⁽¹⁾⁽²⁾	Canada				United States	Total
	Ontario	Alberta	Other	Subtotal		
Residential ⁽³⁾	—	—	—	—	7,498	7,498
Industrial	4,967	1,938	1,154	8,059	700	8,759
Office	3,611	513	893	5,017	1,786	6,803
Retail	1,469	150	707	2,326	3,385	5,711
Total	10,047	2,601	2,754	15,402	13,369	28,771

⁽¹⁾ Excludes the Bow and 100 Wynford.

⁽²⁾ Excludes all properties held for development. Refer to the "Canadian Properties under Development" and "U.S. Properties under Development" section of this MD&A for further information on properties held for development.

⁽³⁾ The residential properties contain 8,164 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, 2022 at the REIT's proportionate share, excluding the Residential segment where leases typically expire annually.

Canadian Portfolio:

	Industrial		Office		Retail		Total	
	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry
LEASE EXPIRIES								
2023	215,261	7.56	260,354	23.93	7,116	17.63	482,731	16.54
2024	1,077,310	10.42	565,743	11.81	76,655	14.57	1,719,708	11.06
2025	726,932	6.83	426,292	20.66	127,607	13.65	1,280,831	12.11
2026	401,586	7.79	973,843	15.26	104,363	13.20	1,479,792	13.09
2027	2,947,172	7.20	358,544	24.29	126,807	10.67	3,432,523	9.11
	5,368,261	7.85	2,584,776	17.52	442,548	12.91	8,395,585	11.10
Total % of each segment	66.6%		51.5%		19.0%		54.5%	

U.S. Portfolio:

	Industrial		Office		Retail		Total	
	Sq.ft.	Rent per sq.ft. (\$) on expiry ⁽¹⁾	Sq.ft.	Rent per sq.ft. (\$) on expiry ⁽¹⁾	Sq.ft.	Rent per sq.ft. (\$) on expiry ⁽¹⁾	Sq.ft.	Rent per sq.ft. (\$) on expiry ⁽¹⁾
LEASE EXPIRIES								
2023	—	—	85,725	5.86	165,768	23.79	251,493	17.68
2024	123,090	3.75	9,000	16.00	158,700	13.82	290,790	9.62
2025	—	—	92,694	15.23	165,495	22.25	258,189	19.73
2026	—	—	284,062	36.01	163,345	22.58	447,407	31.11
2027	—	—	—	—	372,508	16.56	372,508	16.56
	123,090	3.75	471,481	26.06	1,025,816	19.18	1,620,387	20.01
Total % of each segment	17.6%		26.4%		30.3%		27.6%	

⁽¹⁾ U.S. dollars.

TOP TWENTY SOURCES OF REVENUE BY TENANT

The following table discloses H&R's top twenty tenants, based on rentals from investment properties, as at December 31, 2022 at the REIT's proportionate share:

Tenant	% of Rentals from Investment Properties ⁽¹⁾	Number of Locations	H&R owned sq.ft. (in 000's)	Average Lease Term to Maturity (in years) ⁽²⁾	Credit Ratings (S&P)
1. Hess Corporation	8.1%	1	845	10.2	BBB- Stable
2. New York City Department of Health	6.1%	1	660	7.9	A+ Stable
3. Giant Eagle, Inc.	5.0%	196	1,652	9.6	Not Rated
4. Bell Canada	3.2%	3	835	7.4	BBB+ Stable
5. TC Energy Corporation	2.8%	1	466	8.3	BBB+ Stable
6. Corus Entertainment Inc.	2.8%	1	472	10.2	BB Stable
7. Ovintiv Inc. ⁽³⁾	2.5%	—	—	15.4	BBB- Stable
8. Canadian Tire Corporation ⁽⁴⁾	2.3%	3	2,110	4.1	BBB Stable
9. Lowe's Companies, Inc.	1.9%	11	1,128	11.4	BBB+ Stable
10. Public Works and Government Services, Canada	1.7%	4	354	3.3	AAA Stable
11. Toronto-Dominion Bank	1.5%	3	270	4.9	AA- Stable
12. Telus Communications	1.2%	1	333	2.5	BBB Stable
13. Royal Bank of Canada	1.2%	2	227	2.7	AA- Stable
14. Finning International Inc.	0.8%	10	366	6.9	BBB+ Stable
15. Sobeys Inc.	0.8%	9	331	8.3	BBB- Stable
16. Metro Inc.	0.8%	11	369	5.5	BBB Stable
17. Purolator Inc.	0.7%	12	535	6.7	Not Rated
18. Canadian Imperial Bank of Commerce	0.7%	2	148	1.6	A+ Stable
19. Government of Ontario ⁽⁵⁾	0.6%	4	121	8.1	A+ Stable
20. Gowling WLG	0.6%	1	145	8.6	Not Rated
Total	45.3%	276	11,367	8.4	

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

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

⁽³⁾ Ovintiv Inc. includes 15% of the net rent payable under the Ovintiv lease (as defined below).

⁽⁴⁾ Canadian Tire Corporation includes Canadian Tire and Mark's.

⁽⁵⁾ Government of Ontario includes the Financial Services Regulatory Authority of Ontario and the Liquor Control Board of Ontario.

FINANCIAL HIGHLIGHTS

(in thousands except for per Unit amounts)	December 31 2022	December 31 2021	December 31 2020
Total assets	\$11,412,603	\$10,501,141	\$13,355,444
Debt to total assets per the REIT's Financial Statements ⁽¹⁾	34.4%	37.1%	47.7%
Debt to total assets at the REIT's proportionate share ⁽¹⁾⁽²⁾	44.0%	46.6%	51.1%
Unitholders' equity	5,487,287	4,773,833	6,071,391
Units outstanding	265,885	288,440	286,863
Exchangeable units outstanding	17,974	13,344	14,883
Unitholders' equity per Unit	\$20.64	\$16.55	\$21.16
NAV per Unit ⁽²⁾⁽³⁾	\$21.80	\$17.70	\$21.93

(in thousands except for per Unit amounts)	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Rentals from investment properties	\$216,835	\$265,794	\$834,640	\$1,065,380
Net operating income	148,112	169,841	534,949	661,582
Same-Property net operating income (cash basis) ⁽⁴⁾	124,669	112,456	477,109	415,207
Net income from equity accounted investments	53,473	89,298	47,139	125,649
Fair value adjustment on real estate assets	(224,480)	(13,005)	546,081	12,984
Net income (loss)	(116,129)	208,195	844,823	597,907
Funds from Operations ("FFO") ⁽⁴⁾	87,874	104,572	341,183	461,365
Adjusted Funds from Operations ("AFFO") ⁽⁴⁾	62,483	76,227	287,336	365,825
Weighted average number of Units and exchangeable units for FFO	283,859	301,779	290,782	301,772
FFO per basic Unit ⁽²⁾	\$0.310	\$0.347	\$1.173	\$1.529
AFFO per basic Unit ⁽²⁾	\$0.220	\$0.253	\$0.988	\$1.212
Cash Distributions per Unit ⁽⁵⁾	\$0.188	\$0.272	\$0.590	\$0.790
Payout ratio as a % of FFO ⁽²⁾	60.6%	78.4%	50.3%	51.7%
Payout ratio as a % of AFFO ⁽²⁾	85.5%	107.5%	59.7%	65.2%

⁽¹⁾ Debt includes mortgages payable, debentures payable, unsecured term loans, lines of credit and liabilities classified as held for sale.

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

⁽³⁾ Refer to the "Liabilities and Unitholders' Equity" section of this MD&A 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⁾ H&R's monthly distribution was \$0.0458 per Unit as at December 31, 2022, which increased from \$0.0433 per Unit in May 2022. Following the Primaris Spin-Off on December 31, 2021, Primaris REIT announced a monthly distribution of \$0.067 per Primaris REIT unit, reflecting \$0.80 per Primaris REIT unit on an annualized basis (equivalent to \$0.20 per 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 annual distribution for 2022 of \$0.54 per Unit equates to a combined distribution of \$0.74 per Unit for those investors that held Units as at December 31, 2021 and continue to hold both their Units and Primaris REIT units, which is a 7.2% increase over the \$0.69 per Unit paid by H&R in 2021, excluding any special distributions.

SIGNIFICANT 2022 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.

H&R has executed on and completed a number of significant transactions and initiatives in furtherance of its strategic repositioning plan:

October 2021: \$1.67 billion in strategic transactions completed with the sale of the Bow in Calgary, AB and Bell Office Campus in Mississauga, ON which significantly reduced Calgary office exposure, enhanced tenant diversification and created the liquidity and strengthened balance sheet to enable the Primaris Spin-Off.

December 2021: \$2.4 billion 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.

May 2022: Enhanced senior leadership team with appointment of Philippe Lapointe as President of H&R.

August 2022: Strategic sales of office and retail properties valued at \$167.8 million, including 100 Wynford.

December 2022: Reduced leverage to 44.0% debt to total assets at the REIT's proportionate share, an improvement compared to 46.6% as at December 31, 2021.

Total 2022 non-core property sales at the REIT's proportionate share totalled \$463.2 million, including 100 Wynford.

The REIT has entered into an agreement to sell 160 Elgin Street ("160 Elgin") in Ottawa, ON for \$277.0 million. The selling price is in-line with 160 Elgin's value as at December 31, 2022. 160 Elgin was classified as held for sale at December 31, 2022. Closing is expected to occur in April 2023.

2022 Net Operating Income Highlights:

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2022	2021	% Change	2022	2021	% Change
Operating Segment:						
Same-Property net operating income (cash basis) - Residential ⁽¹⁾	\$34,059	\$29,351	16.0%	\$125,248	\$95,837	30.7%
Same-Property net operating income (cash basis) - Industrial ⁽¹⁾	15,222	13,583	12.1%	58,046	54,149	7.2%
Same-Property net operating income (cash basis) - Office ⁽¹⁾	49,669	47,862	3.8%	200,073	176,649	13.3%
Same-Property net operating income (cash basis) - Retail ⁽¹⁾	25,719	21,660	18.7%	93,742	88,572	5.8%
Same-Property net operating income (cash basis) ⁽¹⁾	124,669	112,456	10.9%	477,109	415,207	14.9%
Net operating income (cash basis) from Transactions at the REIT's proportionate share ⁽¹⁾⁽²⁾	35,249	68,121	(48.3)%	143,032	294,822	(51.5)%
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share ⁽¹⁾⁽³⁾	12,600	12,192	3.3%	—	—	—%
Straight-lining of contractual rent at the REIT's proportionate share ⁽¹⁾	3,588	1,057	239.5%	6,890	23,664	(70.9)%
Net operating income from equity accounted investments ⁽¹⁾	(27,994)	(23,985)	(16.7)%	(92,082)	(72,111)	(27.7)%
Net operating income per the REIT's Financial Statements	\$148,112	\$169,841	(12.8)%	\$534,949	\$661,582	(19.1)%

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

⁽²⁾ Transactions are defined in the "Net Operating Income" section of this MD&A.

⁽³⁾ IFRIC 21 is defined in the "Non-GAAP Measures" section of this MD&A.

Refer to the “*Net Operating Income*” section of this MD&A for further explanations on the net operating income changes for the year ended December 31, 2022.

Transaction Highlights

Property Dispositions

2022 property sales at the REIT’s proportionate share total \$463.2 million, including 100 Wynford.

In March 2022, H&R sold its 33.3% non-managing interest in The Pearl, a 383 residential rental unit development in Austin, TX for approximately U.S. \$45.8 million. H&R’s total cost to build this property was approximately U.S. \$25.1 million, at the REIT’s ownership interest. The return on equity invested amounted to approximately 221.5%. The Pearl was classified as an asset held for sale within equity accounted investments as at December 31, 2021.

In June 2022, H&R completed the following dispositions:

- H&R sold a 312 residential rental unit property (“Alamo Heights”) in San Antonio, TX for U.S. \$69.3 million at a capitalization rate of 3.6%. H&R acquired this property in November 2016 for U.S. \$56.8 million. This was H&R’s only residential asset in the San Antonio, TX market and H&R does not plan to allocate any further capital to this market of Texas.
- H&R sold seven automotive-tenanted retail properties in the United States totalling 94,205 square feet for approximately U.S. \$58.1 million at a weighted average capitalization rate of 5.2%.
- H&R sold a 21,493 square foot single tenanted industrial property in Calgary, AB for \$3.5 million, all at H&R’s 50% ownership interest. This property had been vacant since May 2022, and H&R chose to sell this property to an end user given the size of the building and its unique usage for document storage.

In August 2022, H&R completed the sale of two Canadian office properties, including 100 Wynford, and two Canadian retail properties for gross proceeds of \$167.8 million at a weighted average capitalization rate of 6.9%.

H&R has the option to repurchase 100 Wynford for approximately \$159.7 million in 2036 or earlier under certain circumstances. Due to the repurchase option in favour of H&R, the transaction did not meet the criteria of a transfer of control under IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”). As such, 100 Wynford will continue to be recorded as an income producing property in the statements of financial position, with proceeds received from the sale recorded as deferred revenue and amortized over the term of the lease with Bell Canada. In Q3 2021, H&R submitted an Employment Conversion Request to the City of Toronto for 100 Wynford. Given the property’s proximity to two future transit lines (the Eglinton LRT and the Ontario Line), H&R believes there is an opportunity for future redevelopment of the existing parking lot into a multi-phased project that introduces residential uses. H&R envisions a land use conversion from the existing Employment Land designation to Mixed Use designation, similar to the process undertaken at a nearby property at the intersection of Don Mills Road and Eglinton Avenue East formerly owned by Celestica Inc.

In October 2022, H&R sold two automotive-tenanted retail properties in Arizona totaling 25,309 square feet for U.S. \$17.0 million at a weighted average capitalization rate of 5.8%. In addition, H&R sold a 123,000 square foot single tenanted office property in Burlington, ON for \$26.0 million. Prior to the sale, H&R received a \$2.3 million lease termination fee in Q3 2022 and the property was vacant as at September 30, 2022. H&R chose to sell this property to an end user given the size of the building and its unique usage for flex-office space in a suburban market.

In December 2022, H&R sold an automotive-tenanted retail property in McKinney, TX totalling 13,404 square feet for approximately U.S. \$5.0 million at a capitalization rate of 5.1%.

Acquisitions

In October 2022, H&R acquired a 50% ownership interest in 7-21, 23-31 Prince Andrew Place, a multi-tenanted industrial property in Toronto, ON, totalling 36,999 square feet for \$10.5 million at H&R’s ownership interest. This site is adjacent to H&R’s 50% ownership interest in 1,4,8 Prince Andrew Place and was acquired to provide H&R and its partners with redevelopment intensification opportunities in the future given the close proximity to two future transit lines (the Eglinton LRT and the Ontario Line).

In December 2022, H&R acquired a 92,818 square foot office property in Dallas, TX for U.S. \$49.0 million. This property was strategically acquired due to it being partially occupied by Lantower Residential, H&R’s residential division, and it is adjacent to a 3.3

acre land parcel already owned by H&R which is being held for future residential development. The property was acquired through a Section 1031 property exchange under the U.S. Internal Revenue Code and the majority of the Section 1031 proceeds that were used to fund this acquisition came from the sale of Alamo Heights in San Antonio, TX, which was sold at a 3.6% capitalization rate.

Properties Acquired for Future Development

In April 2022, H&R acquired 6.8 acres of land in Clearwater, FL for U.S. \$17.1 million, which is expected to be developed into 434 residential rental units. The site is adjacent to U.S. Highway 19, minutes away from Tech Data Corporation's headquarters and the Gateway office submarket.

In June 2022, H&R acquired 16.3 acres of land in Orlando, FL for U.S. \$15.5 million, which is expected to be developed into 371 residential rental units. The site is located at the main entrance of NeoCity, a 500-acre mixed-use tech campus.

In July 2022, H&R acquired 5.8 acres of land in Dallas, TX for U.S. \$14.7 million, which has been zoned for 437 residential rental units. The site is located in West Dallas, one of the most rapidly changing and fastest growing urban infill markets in the Dallas area, minutes away from downtown Dallas, Interstate 30 and Interstate 35E.

In July 2022, H&R acquired 2.4 acres of land in Dallas, TX for U.S. \$3.0 million, which has been zoned for 250 residential rental units. The site is located within 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. This is H&R's second land purchase within CityLine, and this site is adjacent to a 3.7 acre site H&R purchased in September 2021 which has been zoned for 295 residential rental units.

In September 2022, H&R acquired a 50% ownership interest in 8.4 acres of land in Santa Ana, CA for U.S. \$26.3 million and obtained a variable rate land loan for U.S. \$13.3 million for an 18-month term, all at H&R's ownership interest. This acquisition ("Central Pointe") will be accounted for as an equity accounted investment. The site is expected to consist of two buildings totalling 163 residential rental units and 160 residential rental units, respectively, as well as 7,566 square feet of retail space, all at H&R's ownership interest. The site is located within one block off the I-5 freeway and within several miles of Downtown Santa Ana, South Coast Metro, Irvine, Anaheim and Orange County.

In November 2022, H&R acquired 2.0 acres of land in Miami, FL for approximately U.S. \$18.6 million, which is being held for future residential development.

These land acquisitions align with H&R's strategy to grow its exposure to residential assets in U.S. sunbelt and gateway cities.

Major Leasing Transactions and Updates:

H&R has leased approximately 76.7% of the office space at River Landing Commercial in Miami, FL. The two major tenants are: (i) the Office of the State Attorney, Eleventh Judicial Circuit of Miami-Dade County, whose lease commenced in October 2022 and is occupying 49,379 square feet; and (ii) Public Health Trust of Miami-Dade County; who will occupy a total of 63,007 square feet, of which 43,351 square feet is expected to be occupied in Q1 2023 and the remaining 19,656 square is expected to be occupied later this year.

In Q2 2022, H&R leased 2121 Cornwall Road., in Oakville, ON, a vacant industrial property totalling 157,083 square feet, at H&R's ownership interest, for a 10-year term commencing September 1, 2022 at current market rents with annual contractual rental escalations.

In Q2 2022, H&R completed a 5-year lease renewal at 2300 Rue Senkus in Montreal, QC, an industrial property totalling 371,000 square feet, at H&R's ownership interest. The original lease was set to expire in December 2022 and rent will increase by 125% commencing in January 2023 with annual contractual rent escalations.

In Q3 2022, H&R entered into a lease amendment with Bell Canada to terminate their lease at 200 Bouchard Boulevard, Montreal, QC in December 2026 ("200 Bouchard Lease Amendment"). The previous lease term would have ended in April 2036. H&R will receive a lease termination fee of approximately \$70.0 million in 2026. The terms of the rental payments to 2026 have not changed. IFRS 16, *Leases* ("IFRS 16") requires revenue from leases to be recognized on a straight-line basis over the contractual term of the lease. As a result of this lease amendment, a non-cash adjustment to straight-lining of contractual rent of approximately \$3.5 million was recorded in Q3 2022 and will continue to be recorded every quarter until the end of the lease. This resulted in a \$3.5 million and \$7.0 million increase to net operating income and FFO for the three months and year ended December 31, 2022, respectively. Same-

Property net operating income (cash basis) and AFFO were not impacted as H&R deducts non-cash items, including straight-lining of contractual rent, in calculating these amounts. H&R is working with the City of Montreal as they update their master plan, and has provided a plan to convert this existing office property into approximately 850 residential units resulting in approximately 1.1 million square feet of new residential development. These plans will continue to evolve, along with the city's master plan, with a targeted approval date of Q1 2024.

In Q4 2022, H&R completed a 10-year lease renewal at 170 Butts Street in South Hill, VA, an industrial property totalling 412,585 square feet, at H&R's ownership interest. The original lease was set to expire in April 2023 and rent will increase by 10% commencing in May 2023 with annual contractual rental escalations.

Development Update

Canadian Properties under Development

In September 2022, two Canadian properties under development in the REIT's industrial business park in Caledon, ON were substantially completed and transferred to investment properties. 34 Speirs Giffen Avenue, totalling 105,014 square feet, has been leased to Lindstrom Fastener (Canada) Ltd. for a term of 10 years which commenced in January 2023. 140 Speirs Giffen Avenue, totalling 77,754 square feet, has been leased to Coast Holding Limited Partnership for a term of 10 years which commenced in December 2022. This now completes the first phase of H&R's Caledon industrial park.

The REIT currently has two industrial properties under development located at 1965 Meadowvale Boulevard and 1925 Meadowvale Boulevard in Mississauga, ON, totalling 336,800 square feet, which are expected to be completed in 2023. The total development budget to complete these two properties is approximately \$52.6 million. In October 2022, H&R entered into a binding agreement with Armour Transport Inc. to fully lease 1965 Meadowvale Boulevard, totalling 187,290 square feet, for a term of 10 years at current market rents with annual contractual rental escalations.

Refer to the "*Canadian Properties under Development*" section of this MD&A for further information.

U.S. Properties under Development

The REIT has commenced construction on two U.S. residential development properties in 2022. The total development budget to complete these two properties is approximately U.S. \$167.8 million. The REIT expects its construction costs for these two properties under development to be approximately U.S. \$118.6 million in 2023 and U.S. \$49.2 million in 2024.

Refer to the "*U.S. Properties under Development*" section of this MD&A for further information.

H&R has a 31.2% non-managing ownership interest in Shoreline in Long Beach, CA. In June 2022, the project reached substantial completion and was transferred from properties under development to investment properties within equity accounted investments. As at December 31, 2022, occupancy was 82.2% and committed occupancy was 84.8%.

H&R has a 31.7% non-managing ownership interest in The Grand at Bayfront in Hercules, CA. In June 2022, the project reached substantial completion and was transferred from properties under development to investment properties within equity accounted investments. As at December 31, 2022, occupancy was 60.8% and committed occupancy was 62.1%.

Future Intensification

In July 2022, the City of Toronto adopted the final report recommending approval of the rezoning application for 145 Wellington St. W., which provides for the redevelopment of the current 13-storey office property into a 60-storey mixed-use property consisting of 512 residential units, 149,000 square feet of office space and 1,000 square feet of retail space.

In September 2022, H&R submitted a combined Official Plan Amendment and Rezoning Application for 69 Yonge Street in Toronto, ON for adaptive reuse of this 15-storey heritage building. The existing building will be retained in its entirety, with additional floor area added to all existing floors as well as a new 5-storey addition on the roof. The existing office use will be replaced by residential use, the existing grade related retail space will be retained and new retail space will be added below grade. Overall, H&R expects to receive approval for approximately 125 residential units totalling approximately 125,000 square feet.

In Q4 2022, H&R reached a settlement agreement with the City of Toronto for 53 & 55 Yonge Street in Toronto, ON for a 66-storey mixed use tower, including 511 residential units. Subsequently, the settlement agreement was endorsed by City Council on

December 14, 2022. The application is scheduled for a 5-day hearing at the Ontario Land Tribunal (“OLT”) commencing on February 27, 2023. H&R expects to have rezoning finalized in Q3 2023 following the completion of the OLT hearing.

Normal Course Issuer Bid

The REIT did not purchase any Units during the three months ended December 31, 2022. During the year ended December 31, 2022, the REIT purchased and cancelled 22,873,800 Units at a weighted average price of \$12.99 per Unit for a total cost of \$297.1 million, representing an approximate 40.4% discount to NAV per Unit (a non-GAAP ratio). During the year ended December 31, 2021, the REIT did not purchase any Units for cancellation.

On February 9, 2023, 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 26,028,249 Units on the open market until the earlier of February 15, 2024 and the date on which the REIT has purchased the maximum number of Units permitted under the NCIB.

Debt & Liquidity Highlights

In July 2022, the REIT secured a one-year extension on its \$150.0 million revolving unsecured line of credit which will now mature on September 20, 2023.

In November 2022, the REIT borrowed \$125.0 million by way of a new unsecured term loan maturing November 2024. The REIT entered into an interest rate swap to fix the interest rate at 5.29% per annum. The REIT borrowed an additional \$125.0 million by way of a new unsecured term loan maturing November 2025. The REIT entered into an interest rate swap to fix the interest rate at 5.19% per annum. The interest rate swaps mature on September 29, 2027. These proceeds were used to repay lines of credit.

During the year ended December 31, 2022, H&R repaid 24 mortgages totalling \$259.5 million at a weighted average interest rate of 4.0%.

As at December 31, 2022, debt to total assets per the REIT’s Financial Statements was 34.4% compared to 37.1% as at December 31, 2021. As at December 31, 2022, debt to total assets at the REIT’s proportionate share (a non-GAAP ratio) was 44.0% compared to 46.6% as at December 31, 2021. The weighted average interest rate of H&R’s debt as at December 31, 2022 was 3.8% with an average term to maturity of 3.2 years. 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.

As at December 31, 2022, H&R had cash and cash equivalents of \$76.9 million, \$930.4 million available under its unused lines of credit and an unencumbered property pool of approximately \$4.9 billion.

2022 Taxation Consequences for Taxable Canadian Unitholders

H&R’s cash distributions amounted to \$0.59 per Unit during 2022 (including a \$0.05 per Unit special cash distribution to unitholders of record on December 30, 2022). The REIT also made a special distribution to unitholders of record on December 30, 2022 of \$0.35 per Unit payable in additional Units, which were immediately consolidated such that there was no change in the number of outstanding Units. 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 (\$0.35 per Unit) will increase the adjusted cost basis of unitholders’ consolidated Units.

2023 Distribution Increase

H&R is pleased to announce that it has increased its monthly distributions to \$0.05 per Unit commencing January 2023. This amounts to \$0.60 per Unit annually, an intended 11.1% increase from the 2022 distribution of \$0.54 per Unit, excluding the 2022 special cash distribution.

ESG Reporting

H&R is pleased to announce the launch of its Green Financing Framework, which has been designed to support the REIT’s sustainability strategy as the REIT continues to expand its building portfolio in an environmentally and socially responsible way. Refer to the “ESG section” of this MD&A for further information.

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	December 31
	2022	2021
For each U.S. \$1.00	\$1.36 CAD	\$1.26 CAD

The following table reconciles the REIT's Statement of Financial Position from the REIT's Financial Statements to the REIT's proportionate share:

	December 31, 2022			December 31, 2021		
(in thousands of Canadian dollars)	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share ⁽¹⁾	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share ⁽¹⁾
Assets						
Real estate assets						
Investment properties	\$8,799,317	\$2,128,306	\$10,927,623	\$8,581,100	\$1,824,609	\$10,405,709
Properties under development	880,778	89,912	970,690	481,432	165,187	646,619
	9,680,095	2,218,218	11,898,313	9,062,532	1,989,796	11,052,328
Equity accounted investments	1,060,268	(1,060,268)	—	992,679	(992,679)	—
Assets classified as held for sale	294,028	—	294,028	—	57,309	57,309
Other assets	301,325	21,892	323,217	321,789	13,557	335,346
Cash and cash equivalents	76,887	38,443	115,330	124,141	40,499	164,640
	\$11,412,603	\$1,218,285	\$12,630,888	\$10,501,141	\$1,108,482	\$11,609,623
Liabilities and Unitholders' Equity						
Liabilities						
Debt	\$3,922,529	\$1,137,210	\$5,059,739	\$3,894,906	\$1,026,836	\$4,921,742
Exchangeable units	217,668	—	217,668	216,841	—	216,841
Deferred Revenue	986,243	—	986,243	896,801	—	896,801
Deferred tax liability	483,048	—	483,048	350,501	—	350,501
Accounts payable and accrued liabilities	309,505	58,502	368,007	368,259	59,130	427,389
Liabilities classified as held for sale	6,323	—	6,323	—	—	—
Non-controlling interest	—	22,573	22,573	—	22,516	22,516
	5,925,316	1,218,285	7,143,601	5,727,308	1,108,482	6,835,790
Unitholders' equity	5,487,287	—	5,487,287	4,773,833	—	4,773,833
	\$11,412,603	\$1,218,285	\$12,630,888	\$10,501,141	\$1,108,482	\$11,609,623

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

ASSETS**Real Estate Assets:**

Change in Investment Properties (in thousands of Canadian dollars)	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share⁽¹⁾
Opening balance, January 1, 2022	\$8,581,100	\$1,824,609	\$10,405,709
Acquisitions, including transaction costs	78,448	30,791	109,239
Dispositions	(256,292)	(12,147)	(268,439)
Operating capital:			
Capital expenditures	35,582	4,296	39,878
Leasing expenses and tenant inducements	8,516	2,089	10,605
Redevelopment, net of insurance proceeds (including capitalized interest)	(5,425)	(4,729)	(10,154)
Amortization of tenant inducements and straight-lining of contractual rents	1,896	(709)	1,187
Transfer of properties under development that have reached substantial completion to investment properties	56,834	171,707	228,541
Transfer of investment property to properties under development	—	(3,085)	(3,085)
Transfer of investment properties to assets classified as held for sale	(294,028)	—	(294,028)
Change in right-of-use asset ⁽²⁾	—	2,061	2,061
Fair value adjustment on real estate assets	283,705	(37,749)	245,956
Change in foreign exchange	308,981	151,172	460,153
Closing balance, December 31, 2022	\$8,799,317	\$2,128,306	\$10,927,623

⁽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, 2022, the right-of-use asset in a leasehold interest of \$35.6 million (included in equity accounted investments) was measured at an amount equal to the corresponding lease liability.

2022 Acquisitions:

Property	Year Built /Renovated	Segment	Date Acquired	Square Feet	Purchase Price (\$ Millions)	Ownership Interest Acquired
7-21, 23-31 Prince Andrew Pl., Toronto, ON ⁽¹⁾	1964	Industrial	Oct 14, 2022	36,999	\$10.5	50%
2218 Bryan St., Dallas, TX ⁽²⁾	1907/2017	Office	Dec 19, 2022	92,818	67.1	100%
Total				129,817	\$77.6	

⁽¹⁾ Square feet and purchase price is based on the ownership interest acquired.

⁽²⁾ This U.S. acquisition has been translated to Canadian dollars using the exchange rate on the day the property was acquired.

2021 Acquisition:

Property	Year Built /Renovated	Segment	Date Acquired	Square Feet	Purchase Price (\$ Millions)	Ownership Interest Acquired
77 Union St., Toronto, ON	1969	Industrial	Dec 03, 2021	195,000	\$92.5	100%

2022 Dispositions⁽¹⁾:

Property	Segment	Date Sold	Square Feet	Selling Price (\$ Millions)	Ownership Interest Sold
16542 Keystone Blvd., Parker, CO ⁽²⁾	Retail	Jun 10, 2022	13,417	\$12.5	100%
3332 Arapahoe Rd., Erie, CO ⁽²⁾	Retail	Jun 10, 2022	12,007	7.4	100%
7520 Village Square Dr., Castle Rock, CO ⁽²⁾	Retail	Jun 10, 2022	11,707	10.2	100%
22994 E. Smoky Hill Rd., Aurora, CO ⁽²⁾	Retail	Jun 10, 2022	13,283	12.0	100%
593 Summit Blvd., Broomfield, CO ⁽²⁾	Retail	Jun 10, 2022	14,441	11.8	100%
901 Supermall Rd., Auburn, WA ⁽²⁾	Retail	Jun 10, 2022	14,434	8.4	100%
1546 E. Ray Rd., Gilbert, AZ ⁽²⁾	Retail	Jun 10, 2022	14,916	12.1	100%
327 W. Sunset Rd., San Antonio, TX ⁽²⁾⁽³⁾	Residential	Jun 23, 2022	259,951	90.1	100%
5321-11th St. N.E., Calgary, AB ⁽⁴⁾	Industrial	Jun 23, 2022	21,493	3.5	50%
2767 2nd Ave., Calgary, AB	Office	Aug 31, 2022	69,793	18.7	100%
2665 32nd St., Calgary, AB	Retail	Aug 31, 2022	89,438	14.1	100%
2342 Princess St., Kingston, ON	Retail	Aug 31, 2022	129,181	14.2	100%
8237 & 8333 West Thunderbird Rd., Peoria, AZ ⁽²⁾	Retail	Oct 3, 2022	11,811	11.3	100%
947 & 1959 South Greenfield Rd., Mesa, AZ ⁽²⁾	Retail	Oct 3, 2022	13,498	12.0	100%
649 North Service Rd., Burlington, ON	Office	Oct 24, 2022	123,000	26.0	100%
4901 & 4951 W. Eldorado Pkwy., McKinney, TX ⁽²⁾	Retail	Dec 30, 2022	13,404	6.7	100%
Total			825,774	\$271.0	

⁽¹⁾ Excludes the sale of 100 Wynford for \$120.8 million. This transaction did not meet the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of 100 Wynford in 2036 or earlier under certain circumstances. As such, the REIT continues to recognize the income producing property. Refer to "Liabilities & Unitholders' Equity - Deferred Revenue" section of this MD&A for further information.

⁽²⁾ U.S. dispositions have been translated to Canadian dollars using the exchange rate on the day the property was sold.

⁽³⁾ Property consists of 312 residential rental units.

⁽⁴⁾ Square feet and selling price are based on the ownership interest sold and H&R no longer holds any ownership interest in this asset.

2021 Dispositions⁽¹⁾⁽²⁾:

Property	Segment	Date Sold	Square Feet	Selling Price (\$ Millions) ⁽¹⁾	Ownership Interest Sold
9050 W. Washington Blvd., Culver City, CA ⁽³⁾⁽⁴⁾	Office	Jan 25, 2021	172,039	\$209.6	100%
2 East Beaver Crk., Richmond Hill, ON ⁽⁴⁾⁽⁵⁾	Industrial	Mar 1, 2021	39,294	9.6	50%
550 McAllister Dr., Saint John, NB ⁽⁵⁾	Industrial	Jun 28, 2021	52,047	5.9	50%
1 Duck Pond Rd., Lakeside, NS ⁽⁵⁾	Industrial	Jun 28, 2021	52,988	4.2	50%
460 MacNaughton Ave., Moncton, NB ⁽⁵⁾	Industrial	Jun 28, 2021	38,152	4.2	50%
10 Old Placentia Rd., Mount Pearl, NL ⁽⁵⁾	Industrial	Jun 28, 2021	40,365	4.1	50%
611 Ferdinand Blvd., Dieppe, NB ⁽⁵⁾	Industrial	Jun 28, 2021	31,527	2.9	50%
190 Goodrich Dr., Kitchener, ON ⁽⁵⁾	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 ⁽⁵⁾	Industrial	Jul 29, 2021	84,046	28.7	50%
1588 Cliveden Ave., Delta, BC ⁽⁵⁾	Industrial	Jul 29, 2021	43,694	25.8	50%
6100 Chemin de la Cote-de-Liesse Rd., Montreal, QC ⁽⁵⁾	Industrial	Jul 29, 2021	101,683	15.0	50%
19572-94 Ave., Surrey, BC ⁽⁵⁾	Industrial	Jul 29, 2021	39,240	12.0	50%
5555-78 Ave., Calgary, AB ⁽⁵⁾	Industrial	Jul 29, 2021	74,066	11.8	50%
590 Nash Road N., Hamilton, ON ⁽⁵⁾	Industrial	Jul 29, 2021	113,851	9.6	50%
20 Pettipas Dr., Dartmouth, NS ⁽⁵⁾	Industrial	Jul 29, 2021	69,273	6.6	50%
1035 Wilton Grove Rd., London, ON ⁽⁵⁾	Industrial	Jul 29, 2021	74,234	5.6	50%
96 Glencoe Dr., Mount Pearl, NL ⁽⁵⁾	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 Crk., FL ⁽³⁾	Retail	Dec 10, 2021	9,553	13.1	100%
Total			2,291,637	\$921.2	

⁽¹⁾ Excludes the Bow, as 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 in 2038 or earlier under certain circumstances. As such, the REIT continues to recognize the income producing property. Refer to "Liabilities & Unitholders' Equity - Deferred Revenue" section of this MD&A for further information.

⁽²⁾ Excludes the Primaris Spin-Off which was carried out through a qualifying disposition for no consideration to Primaris REIT in order to effect the tax-free nature of the spin-off.

⁽³⁾ U.S. dispositions have been translated to Canadian dollars using the exchange rate on the day the property was sold.

⁽⁴⁾ Classified as held for sale as at December 31, 2020.

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

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, 2022							
Operating Segment (in thousands of Canadian dollars)	REIT's Financial Statements			Equity Accounted Investments			REIT's Proportionate Share ⁽¹⁾
	Investment Properties	Properties Under Development	Sub Total	Investment Properties	Properties Under Development	Sub Total	
Residential	\$2,691,961	\$527,416	\$3,219,377	\$1,185,383	\$55,457	\$1,240,840	\$4,460,217
Industrial	1,468,147	344,233	1,812,380	20,604	19,824	40,428	1,852,808
Office ⁽²⁾	3,843,157	9,129	3,852,286	—	—	—	3,852,286
Retail	796,052	—	796,052	922,319	14,631	936,950	1,733,002
Total	\$8,799,317	\$880,778	\$9,680,095	\$2,128,306	\$89,912	\$2,218,218	\$11,898,313

December 31, 2022							
Geographic Location (in thousands of Canadian dollars)	REIT's Financial Statements			Equity Accounted Investments			REIT's Proportionate Share ⁽¹⁾
	Investment Properties	Properties Under Development	Sub Total	Investment Properties	Properties Under Development	Sub Total	
Ontario ⁽²⁾	\$2,465,607	\$344,233	\$2,809,840	\$—	\$19,824	\$19,824	\$2,829,664
Alberta ⁽²⁾	1,427,477	—	1,427,477	—	—	—	1,427,477
Other	552,760	9,128	561,888	—	—	—	561,888
Canada	4,445,844	353,361	4,799,205	—	19,824	19,824	4,819,029
United States	4,353,473	527,417	4,880,890	2,128,306	70,088	2,198,394	7,079,284
Total	\$8,799,317	\$880,778	\$9,680,095	\$2,128,306	\$89,912	\$2,218,218	\$11,898,313

⁽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 and 100 Wynford, valued at \$1,010,635 and \$116,367, respectively.

Capitalization Rates:

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.

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 adjusted accordingly.

The capitalization rates disclosed below are reported by segment and geographic location at the REIT's proportionate share (including assets classified as held for sale) which differs from the REIT's Financial Statements. The Bow has been excluded from the Canada Office and Total capitalization rates for both periods below and 100 Wynford has been excluded from Canada Office and Total capitalization rates for December 31, 2022 as these properties were legally sold in October 2021 and August 2022, respectively.

H&R REIT - MD&A - December 31, 2022

December 31, 2022	Residential	Industrial	Office	Retail	Total
Canada	—	5.09%	6.11%	6.20%	5.72%
United States	4.20%	6.72%	6.86%	6.47%	5.18%
Total	4.20%	5.16%	6.43%	6.40%	5.37%

December 31, 2021	Residential	Industrial	Office	Retail	Total
Canada	—	5.13%	5.83%	5.96%	5.63%
United States	4.34%	6.79%	6.52%	6.31%	5.30%
Total	4.34%	5.20%	6.09%	6.21%	5.43%

Canadian Properties under Development:

In September 2022, two Canadian properties under development in the REIT's industrial business park in Caledon, ON were substantially completed and transferred to investment properties. 34 Speirs Giffen Avenue, totalling 105,014 square feet, has been leased to Lindstrom Fastener (Canada) Ltd. for a term of 10 years which commenced in January 2023. As at December 31, 2022, 34 Speirs Giffen Avenue, was valued at approximately \$28.5 million compared to costs incurred of approximately \$17.1 million, resulting in a fair value increase of approximately \$11.4 million since the start of the project. 140 Speirs Giffen Avenue, totalling 77,754 square feet, has been leased to Coast Holding Limited Partnership for a term of 10 years which commenced in December 2022. This now completes the first phase of H&R's Caledon industrial park. As at December 31, 2022, 140 Speirs Giffen Avenue, was valued at approximately \$32.6 million compared to costs incurred of approximately \$15.5 million, resulting in a fair value increase of approximately \$17.1 million since the start of the project. This now completes the first phase of H&R's Caledon industrial park.

The Canadian properties currently held for development are:

As at December 31, 2022				At H&R's Ownership Interest				
(in thousands of Canadian dollars)	Ownership Interest	Square Feet	Number of Acres	Total Development Budget	Costs Incurred to Date ⁽⁴⁾	Costs Remaining to Complete	Expected Yield on Budgeted Cost	Expected Completion Date
Current Developments:								
1965 Meadowvale Blvd., Mississauga, ON ⁽¹⁾⁽²⁾	100.0%	187,290	7.5	\$46,560	\$18,171	\$28,389	7.1%	Q4 2023
1925 Meadowvale Blvd., Mississauga, ON ⁽¹⁾	100.0%	149,510	8.0	38,697	14,506	24,191	6.7%	Q4 2023
		336,800	15.5	85,257	32,677	52,580		
Future Developments:								
Industrial Lands (Remaining lands), Caledon, ON	100.0%		117.6	—	74,646			
3791 Kingsway, Burnaby, BC ⁽³⁾	50.0%		0.3	—	9,128			
			117.9	—	83,774	—		
		336,800	133.4	\$85,257	\$116,451	\$52,580		

⁽¹⁾ 1965 Meadowvale Blvd. and 1925 Meadowvale Blvd. were previously grouped together up to Q2 2022 and referred to as Meadowvale Commerce Park.

⁽²⁾ In October 2022, H&R entered into a binding agreement with Armour Transport Inc. to fully lease 1965 Meadowvale Blvd. for a term of 10 years at current market rents with annual contractual rental escalations.

⁽³⁾ Excess land held for future redevelopment. This land is adjacent to the REIT's 3777 Kingsway office tower of which H&R also has a 50% ownership interest.

⁽⁴⁾ Excludes fair value adjustments to Canadian properties under development totalling \$236.9 million as at December 31, 2022.

U.S. Properties under Development:

In April 2022, H&R acquired 6.8 acres of land in Clearwater, FL for U.S. \$17.1 million, which is expected to be developed into 434 residential rental units. The site is adjacent to U.S. Highway 19, minutes away from Tech Data Corporation’s headquarters and the Gateway office submarket.

In June 2022, H&R acquired 16.3 acres of land in Orlando, FL for U.S. \$15.5 million, which is expected to be developed into 371 residential rental units. The site is located at the main entrance of NeoCity, a 500-acre mixed-use tech campus.

In July 2022, H&R acquired 5.8 acres of land in Dallas, TX for U.S. \$14.7 million, which has been zoned for 437 residential rental units. The site is located in West Dallas, one of the most rapidly changing and fastest growing urban infill markets in the Dallas area, minutes away from downtown Dallas, Interstate 30 and Interstate 35E.

In July 2022, H&R acquired 2.4 acres of land in Dallas, TX for U.S. \$3.0 million, which has been zoned for 250 residential rental units. The site is located within 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. This is H&R’s second land purchase within CityLine, and this site is adjacent to a 3.7 acre site H&R purchased in September 2021 which has been zoned for 295 residential rental units.

In November 2022, H&R acquired 2.0 acres of land in Miami, FL for approximately U.S. \$18.6 million, which is being held for future residential development.

The REIT’s U.S. development pipeline consists of the following: (i) two current residential developments and (ii) 13 land parcels held for future residential development:

As at December 31, 2022				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	Costs Incurred to Date	Costs Remaining to Complete	Expected Yield on Budgeted Cost	Expected Completion Date
Current Developments:								
West Love, Dallas, TX	100.0%	5.4	413	\$105,692	\$24,684	\$81,008	5.7%	2024
Midtown, Dallas, TX	100.0%	4.2	350	104,113	17,300	86,813	5.7%	2024
		9.6	763	209,805	41,984	167,821		
Future Developments:								
The Cove, Jersey City, NJ	100.0%	12.4	2,840	—	172,604			
12 Remaining Future Developments	100.0%	107.8	4,581	—	173,218			
		120.2	7,421	—	345,822	—		
		129.8	8,184	\$209,805	\$387,806	\$167,821		

Future Intensification Opportunities

In July 2022, the City of Toronto adopted the final report recommending approval of the rezoning application for 145 Wellington St. W., which provides for the redevelopment of the current 13-storey office property into a 60-storey mixed-use property consisting of 512 residential units, 149,000 square feet of office space and 1,000 square feet of retail space.

In Q3 2022, H&R entered into a lease amendment with Bell Canada to terminate their lease at 200 Bouchard Boulevard. in December 2026. The previous lease term would have ended in April 2036. H&R will receive a lease termination fee of approximately \$70.0 million in 2026. The terms of the rental payments to 2026 have not changed. H&R is working with the City of Montreal as they update their master plan, and has provided a plan to convert this existing office property into approximately 850 residential units resulting in approximately 1.1 million square feet of new residential development. These plans will continue to evolve, along with the city of Montreal's master plan, with a targeted approval date of Q1 2024.

In September 2022, H&R submitted a combined Official Plan Amendment and Rezoning Application for 69 Yonge Street in Toronto, ON for adaptive reuse of this 15-storey heritage building. The existing building will be retained in its entirety, with additional floor area added to all existing floors as well as a new 5-storey addition on the roof. The existing office use will be replaced by residential use, the existing grade related retail space will be retained and new retail space will be added below grade. Overall, H&R expects to receive approval for approximately 125 residential units totalling approximately 125,000 square feet.

In Q4 2022, H&R reached a settlement agreement with the City of Toronto for 53 & 55 Yonge Street in Toronto, ON for a 66-storey mixed use tower, including 511 residential units. Subsequently, the settlement agreement was endorsed by City Council on December 14, 2022. The application is scheduled for a 5-day hearing at the Ontario Land Tribunal ("OLT") commencing on February 27, 2023. H&R expects to have rezoning finalized in Q3 2023 following the completion of the OLT hearing.

As at December 31, 2022, the following properties are advancing through the process of rezoning for residential use (figures below are shown at H&R's ownership interest).

Property ⁽¹⁾⁽²⁾	Geography	Ownership	Future Use	Current Square Feet	Anticipated Residential Units	Anticipated Commercial Square Feet	Approval Status ⁽³⁾	Rezoning Approval Date
145 Wellington St. W.	Toronto, ON	100%	Residential	160,098	512	150,000	ZBA adopted at City Council in July 2022 & SPA Submitted	July 2022
53 & 55 Yonge St.	Toronto, ON	100%	Residential	171,758	511	180,000	ZBA & SPA Submitted	Q3 2023
310 Front St. W.	Toronto, ON	100%	Residential	122,486	525	100,000	ZBA & SPA Submitted	2023
200 Bouchard Blvd.	Dorval, QC	100%	Residential	437,157	850	5,000	Submission Pending	2024
3777 & 3791 Kingsway	Burnaby, BC	50%	Residential	335,778	1,250	240,000	PPA Submitted	2024
77 Union St.	Toronto, ON	100%	Residential	195,000	1,950	110,000	ZBA & SPA Submitted	2024
69 Yonge St.	Toronto, ON	100%	Residential	87,909	125	10,000	ZBA & SPA Submitted	2024
				1,510,186	5,723	795,000		

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

⁽²⁾ Excludes 100 Wynford which was sold in August 2022, however the REIT will continue to advance the rezoning process for redevelopment as it has an option to repurchase 100% of the property for approximately \$159.7 million in 2036 or earlier under certain circumstances.

⁽³⁾ Zoning By-Law Amendment is referred to as "ZBA", Site Plan Control Application is referred to as "SPA" and Preliminary Plan Approval is referred to as "PPA" in the table above.

Equity Accounted Investments:

(in thousands of Canadian dollars)	----- Associates-----		Joint Ventures ⁽¹⁾	Total ⁽²⁾
	ECHO	Jackson Park		
Investment properties	\$922,320	\$1,028,855	\$177,131	\$2,128,306
Properties under development	14,631	—	75,281	89,912
Other assets	18,345	1,676	1,871	21,892
Cash and cash equivalents	7,680	6,300	24,463	38,443
Debt	(357,259)	(673,155)	(106,796)	(1,137,210)
Accounts payable and accrued liabilities	(46,038)	(8,173)	(4,291)	(58,502)
Non-controlling interest	(22,573)	—	—	(22,573)
December 31, 2022	\$537,106	\$355,503	\$167,659	\$1,060,268
December 31, 2021	\$482,395	\$360,103	\$150,181	\$992,679

⁽¹⁾ Joint ventures include Slate Drive, one industrial property, Hercules Project, Shoreline and Central Pointe.

⁽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, a 1,871 luxury residential rental unit development in Long Island City, NY.

ECHO

H&R owns a 33.7% interest in Echo Realty LP ("ECHO"), a privately held real estate and development company that 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, 2022 and November 30, 2021, respectively.

As at November 30, 2022, H&R's interest in ECHO consisted of 237 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 196 locations totalling approximately 1.7 million square feet at H&R's ownership interest with an average lease term to maturity of 9.6 years. Giant Eagle represents approximately 54.7% of revenue earned by ECHO.

During the twelve months ended November 30, 2022, ECHO acquired two investment properties totalling 85,595 square feet and three land parcels held for development for U.S. \$28.3 million, at H&R's ownership interest. During this period, ECHO sold three investment properties totalling 64,609 square feet for U.S. \$10.4 million, at H&R's ownership interest. ECHO also transferred three properties under development to investment properties, totalling 6,020 square feet, for a total value of U.S. \$10.0 million and transferred one investment property to properties under development, totalling 21,095 square feet, for a total value of U.S. \$2.6 million, all at H&R's ownership interest.

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 249,260 square feet at H&R's ownership interest. Construction is expected to commence on both buildings in 2023. The total budget is approximately \$75.8 million at H&R's ownership interest.

One industrial property

H&R owns a 50.5% interest in 170 Butts St., South Hill, VA located in the United States through a joint venture with its partners.

Hercules Project

H&R has 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, 2022, H&R's equity investment was approximately U.S. \$12.3 million.

Phase 2 of the Hercules Project, known as "The Grand at Bayfront", consists 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 of the Hercules Project, which was disposed of by H&R in September 2021. Construction commenced in March 2019 and substantial completion was achieved in June 2022, resulting in the REIT transferring this property from properties under development to investment properties within equity accounted investments. As at December 31, 2022, occupancy was 60.8% and committed occupancy was 62.1%.

The remaining land parcels totalling 33.4 acres are secured against a U.S. \$3.8 million land loan at H&R's ownership interest. Future phases will be announced as further development information becomes available.

The Pearl

In March 2022, H&R sold its 33.3% non-managing interest in The Pearl, a 383 residential rental unit development in Austin, TX for approximately U.S. \$45.8 million. H&R's total cost to build this property was approximately U.S. \$25.1 million, at the REIT's ownership interest. The return on equity invested amounted to approximately 221.5%. The Pearl was classified as an asset held for sale within equity accounted investments as at December 31, 2021.

Shoreline

H&R has a 31.2% non-managing ownership interest in Shoreline, a residential development site which consists of a 315 luxury residential rental unit tower with 6,450 square feet of retail space. Located in Long Beach, CA, Shoreline is the tallest residential tower in Long Beach with 35 floors enjoying views overlooking the Pacific Ocean. Construction commenced in November 2018 and substantial completion was achieved in June 2022, resulting in the REIT transferring this property from properties under development to investment properties within equity accounted investments. As at December 31, 2022, occupancy was 82.2% and committed occupancy was 84.8%.

Central Pointe

In September 2022, H&R acquired a 50% ownership interest in 8.4 acres of land in Santa Ana, CA for U.S. \$26.3 million and obtained a variable rate land loan for U.S. \$13.3 million for an 18-month term, all at H&R's ownership interest. The site is expected to consist of two buildings totalling 163 residential rental units and 160 residential rental units, respectively, as well as 7,566 square feet of retail space, all at H&R's ownership interest. The site is located within one block off the I-5 freeway and within several miles of Downtown Santa Ana, South Coast Metro, Irvine, Anaheim and Orange County.

Assets and Liabilities Classified as Held for Sale

As at December 31, 2022, H&R had one office property, a 50% interest in one office property and a 50% interest in one industrial property with an aggregate fair value of \$294.0 million and liabilities of \$6.3 million classified as held for sale. As at December 31, 2021, H&R had no properties classified as held for sale.

Other Assets

(in thousands of Canadian dollars)	December 31, 2022	December 31, 2021
Mortgages receivable	\$169,190	\$191,008
Prepaid expenses and sundry assets	61,212	60,005
Exchangeable units of Primaris REIT	—	55,111
Accounts receivable - net of provision for expected credit loss of \$4,946 (2021 - \$2,885)	5,318	6,130
Restricted cash	27,444	9,535
Derivative instruments	38,161	—
	\$301,325	\$321,789

Mortgages receivable decreased by \$21.8 million from approximately \$191.0 million as at December 31, 2021 to approximately \$169.2 million as at December 31, 2022 primarily due to mortgage repayments.

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. During the year ended December 31, 2022, the REIT sold all of its Primaris REIT units for gross proceeds of \$49.3 million and recognized a loss on sale of \$5.8 million.

Restricted cash increased by \$17.9 million from approximately \$9.5 million as at December 31, 2021 to approximately \$27.4 million as at December 31, 2022 primarily due to proceeds from the sale of U.S. properties held in escrow for property exchanges under Section 1031 of the U.S. Internal Revenue Code.

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

LIABILITIES AND UNITHOLDERS' EQUITY

	December 31, 2022	December 31, 2021
Debt to total assets per the REIT's Financial Statements ⁽¹⁾	34.4%	37.1%
Debt to total assets at the REIT's proportionate share ⁽¹⁾⁽²⁾	44.0%	46.6%
Unencumbered assets ⁽³⁾ (in thousands of Canadian dollars)	\$4,852,067	\$3,985,370
Unsecured debt ⁽³⁾ (in thousands of Canadian dollars)	\$2,296,668	\$2,045,125
Unencumbered asset to unsecured debt coverage ratio ⁽³⁾	2.11	1.95
Debt to Adjusted EBITDA at the REIT's proportionate share ⁽¹⁾⁽²⁾	9.6	7.2
Weighted average interest rate of debt ⁽¹⁾	3.8%	3.7%
Weighted average term to maturity of debt (in years) ⁽¹⁾	3.2	4.0
Weighted average interest rate of debt at the REIT's proportionate share ⁽¹⁾⁽²⁾	3.9%	3.6%
Weighted average term to maturity of debt (in years) at the REIT's proportionate share ⁽¹⁾⁽²⁾	3.8	4.5

⁽¹⁾ Debt includes mortgages payable, debentures payable, unsecured term loans, lines of credit and liabilities classified as held for sale.

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

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

Debt

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

(in thousands of Canadian dollars)	December 31, 2022	December 31, 2021
Mortgages payable	\$1,613,361	\$1,837,281
Debentures payable	1,546,668	1,545,125
Unsecured term loans	750,000	500,000
Lines of credit	12,500	12,500
	\$3,922,529	\$3,894,906

H&R REIT - MD&A - December 31, 2022

(in thousands of Canadian dollars)	Mortgages Payable	Debentures Payable	Unsecured Term Loans	Lines of Credit	Total
Opening balance, January 1, 2022	\$1,837,281	\$1,545,125	\$500,000	\$12,500	\$3,894,906
Scheduled amortization payments	(41,621)	—	—	—	(41,621)
Debt repayments	(259,511)	—	—	—	(259,511)
New debt	—	—	250,000	—	250,000
Transfer of debt to liabilities classified as held for sale	(6,323)	—	—	—	(6,323)
Effective interest rate accretion	2,937	1,543	—	—	4,480
Change in foreign exchange	80,598	—	—	—	80,598
Closing balance, December 31, 2022	\$1,613,361	\$1,546,668	\$750,000	\$12,500	\$3,922,529

<u>Mortgages Payable</u>	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					
2023	\$43,148	\$144,678	\$187,826	11.6	3.0%
2024	41,808	36,872	78,680	4.9	3.9%
2025	36,034	109,317	145,351	9.0	3.9%
2026	35,456	50,637	86,093	5.3	4.3%
2027	20,356	426,911	447,267	27.6	4.1%
Thereafter			676,434	41.6	
			1,621,651	100.0%	
Financing costs and mark-to-market adjustments arising on acquisitions ⁽¹⁾			(8,290)		
Total balance outstanding as at December 31, 2022			\$1,613,361		

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

The mortgages outstanding as at December 31, 2022 bear interest at a weighted average rate of 4.0% (December 31, 2021 - 4.0%) and mature between 2023 and 2032 (December 31, 2021 – mature between 2022 and 2032). The weighted average term to maturity of the REIT's mortgages is 4.6 years (December 31, 2021 - 4.9 years).

<u>Debentures Payable</u>		Contractual Interest Rate	Effective Interest Rate	Principal Amount	December 31 2022 Carrying Value	December 31 2021 Carrying Value
Senior Debentures						
Series O Senior Debentures	January 23, 2023 ⁽¹⁾	3.42%	3.44%	\$250,000	\$249,980	\$249,664
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	349,548	349,146
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	398,892	398,490
Series R Senior Debentures	June 2, 2026	2.91%	3.00%	250,000	249,229	249,021
Series S Senior Debentures	February 19, 2027	2.63%	2.72%	300,000	299,019	298,804
		3.34%	3.43%	\$1,550,000	\$1,546,668	\$1,545,125

⁽¹⁾ In January 2023, the REIT redeemed all of its \$250.0 million outstanding 3.416% Series O Senior Debentures.

H&R REIT - MD&A - December 31, 2022

Unsecured Term Loans (in thousands of Canadian Dollars)	Maturity Date	December 31 2022	December 31 2021
H&R unsecured term loan #1 ⁽¹⁾	March 7, 2024	\$250,000	\$250,000
H&R unsecured term loan #2 ⁽²⁾	January 6, 2026	250,000	250,000
H&R unsecured term loan #3 ⁽³⁾	November 30, 2024	125,000	—
H&R unsecured term loan #4 ⁽⁴⁾	November 30, 2025	125,000	—
		\$750,000	\$500,000

⁽¹⁾ The REIT entered into an interest rate swap to fix the interest rate at 3.17% per annum. The swap matures on May 7, 2030.

⁽²⁾ The REIT entered into an interest rate swap to fix the interest rate at 4.16% per annum. The swap matures on January 6, 2026.

⁽³⁾ The REIT entered into an interest rate swap to fix the interest rate at 5.29% per annum. The swap matures on September 29, 2027.

⁽⁴⁾ The REIT entered into an interest rate swap to fix the interest rate at 5.19% per annum. The swap matures on September 29, 2027.

Lines of Credit (in thousands of Canadian Dollars)	Maturity Date	Total Facility	Amount Drawn	Outstanding Letters of Credit	Available Balance
Revolving unsecured operating lines of credit:					
H&R revolving unsecured line of credit	September 20, 2023	\$150,000	\$—	\$—	\$150,000
H&R revolving unsecured line of credit	December 14, 2026	750,000	—	(1,955)	748,045
H&R revolving unsecured letter of credit facility		60,000	—	(40,088)	19,912
Sub-total		960,000	—	(42,043)	917,957
Revolving secured operating lines of credit⁽¹⁾					
H&R and CrestPSP revolving secured line of credit	February 28, 2023 ⁽²⁾	25,000	(12,500)	(105)	12,395
December 31, 2022		\$985,000	(\$12,500)	(\$42,148)	\$930,352
December 31, 2021		\$985,000	(\$12,500)	(\$20,057)	\$952,443

⁽¹⁾ Secured by certain investment properties.

⁽²⁾ In February 2023, the revolving secured line of credit agreement was amended to extend the maturity date from January 31, 2023 to February 28, 2023.

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 earnings before interest, taxes, depreciation and amortization ("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 2022	December 31 2021
Debt per the REIT's Financial Statements	\$3,928,852	\$3,894,906
Debt - REIT's proportionate share of equity accounted investments	1,137,210	1,026,836
Debt at the REIT's proportionate share	5,066,062	4,921,742
(Figures below are for the trailing 12 months)		
Net income per the REIT's Financial Statements	844,823	597,907
Net income from equity accounted investments (within equity accounted investments)	(1,132)	(94)
Finance costs - operations	260,288	273,180
Fair value adjustments on financial instruments and real estate assets	(582,538)	(130,854)
Gain on sale of real estate assets	(7,493)	(27,831)
Income tax expense	101,634	5,643
Non-controlling interest	967	901
<i>Adjustments:</i>		
The Bow and 100 Wynford non-cash rental income adjustments	(86,555)	(16,520)
Straight-lining of contractual rent	(6,890)	(23,664)
Fair value adjustment to unit-based compensation	2,172	5,083
Adjusted EBITDA at the REIT's proportionate share	\$525,276	\$683,751
Debt to Adjusted EBITDA at the REIT's proportionate share	9.6	7.2

Debt to Adjusted EBITDA at the REIT's proportionate share has increased to 9.6x as at December 31, 2022 compared to 7.2x as at December 31, 2021, primarily due to a decrease in Adjusted EBITDA as a result of the Primaris Spin-Off and other property dispositions during the two-year period ended December 31, 2022.

Exchangeable Units

As at December 31, 2021, certain of the REIT's subsidiaries had exchangeable units outstanding which are puttable instruments where, upon redemption, H&R had a contractual obligation to issue Units and Primaris REIT units. Holders of all exchangeable units were entitled to receive the economic equivalent of distributions on a per unit amount equal to a per unit amount provided to holders of Units 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.

On January 4, 2022, the Board exercised its gross-up option which provides that upon the 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 REIT's special voting units would reflect the number of votes associated with the Units deliverable upon exchange. Subsequent to the exercise of the gross-up option, and the subdivision of the exchangeable units and special voting units, to result in a one-for-one exchange ratio for ease of administration on March 21, 2022, there were 18,279,546 exchangeable units outstanding, including 13,013,698 special voting units. The subdivision did not result in any additional entitlements to holders of exchangeable units.

As at December 31, 2022, certain of the REIT's subsidiaries had in aggregate 17,974,186 exchangeable units outstanding which are puttable instruments where, upon redemption, the REIT has a contractual obligation to issue 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 Units. These puttable instruments are classified as a liability under IFRS and are measured at fair value through profit and loss. At the end of each reporting period, the fair value is determined by using the quoted price of Units on the TSX as the exchangeable units are exchangeable into Units at the option of the holder. The quoted price as at December 31, 2022 was \$12.11 per Unit.

In August 2022, 305,360 exchangeable units were exchanged for Units.

The following number of exchangeable units are issued and outstanding:	Number of Exchangeable Units	Quoted Price of Units	Amounts per the REIT's Financial Statements (\$000's)
As at December 31, 2022	17,974,186	\$12.11	\$217,668
As at December 31, 2021 ⁽¹⁾	13,344,071	\$16.25	\$216,841

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

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

Deferred Revenue

(a) Bow deferred revenue

(i) Sale of the Bow property and 40% interest in the Ovintiv lease

In October 2021, the REIT sold its interest in the Bow property (the "Bow") 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 \$528.0 million. Subsequent to the maturity of the Ovintiv lease, Oak Street will receive all future lease revenue earned by the Bow. Although the REIT sold the Bow, 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 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 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).

(ii) 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. The net proceeds received of \$408.3 million were also recorded as deferred revenue (classified as a liability) and will be amortized over the remaining term of the Ovintiv 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, H&R is legally only entitled to 15% of the lease revenue from the Ovintiv lease until the end of the lease term in May 2038.

(b) 100 Wynford deferred revenue

On August 31, 2022, the REIT sold its interest in 100 Wynford Drive, an office property in Toronto, ON ("100 Wynford") to an arm's length third party, Blue Owl Capital, formerly Oak Street ("Blue Owl") for approximately \$120.8 million. Although the REIT sold 100 Wynford, 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 100 Wynford for approximately \$159.7 million in 2036 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 Bell lease bringing

the value of the real estate asset to nil by the lease maturity in April 2036. The net proceeds received by the REIT on disposition were \$118.6 million. These proceeds were recorded as deferred revenue (classified as a liability) and will be amortized over the remaining term of the Bell lease and will consist of principal and interest.

The following is a summary of the Bow and 100 Wynford in the consolidated statement of financial position in the REIT's Financial Statements:

	December 31, 2022			December 31 2021
	The Bow	100 Wynford	Total	
Income producing property - fair value ⁽¹⁾	\$1,010,635	\$116,367	\$1,127,002	\$1,174,518
Deferred revenue - net of amortization of \$36,742 (2021 - \$7,576)	870,059	116,184	986,243	896,801

⁽¹⁾ The fair value of the income producing properties will be reduced as the remaining financial benefit from these income producing properties diminishes over the term of their respective leases.

The following is a summary of the financial results for the Bow and 100 Wynford included in the consolidated statements of comprehensive income as well as a reconciliation of the Bow and 100 Wynford's contribution to FFO and AFFO:

	Three months ended December 31			2021
	The Bow	100 Wynford	2022	
Rental income earned	\$3,709	\$—	\$3,709	\$10,027
Rental income earned - non-cash	20,997	2,094	23,091	16,520
Straight-lining of contractual rent	—	—	—	164
Revenue reimbursement for property operating costs	12,036	477	12,513	11,361
Property operating costs	(12,055)	(569)	(12,624)	(11,322)
Net operating income	24,687	2,002	26,689	26,750
Finance cost - operations	—	—	—	(1,390)
Finance income	—	—	—	75
Accretion finance expense on deferred revenue - non-cash	(13,576)	(292)	(13,868)	(8,944)
Fair value adjustment on real estate assets - non-cash	(8,285)	(2,438)	(10,723)	(10,410)
Net income (loss)	2,826	(728)	2,098	6,081
Fair value adjustment on real estate assets	8,285	2,438	10,723	10,410
Non-cash rental income and accretion adjustment	(7,421)	(1,802)	(9,223)	(7,576)
FFO ⁽¹⁾	3,690	(92)	3,598	8,915
Straight-lining of contractual rent	—	—	—	(164)
Capital expenditures	—	(626)	(626)	(1,439)
AFFO ⁽¹⁾	\$3,690	(\$718)	\$2,972	\$7,312

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

	Year ended December 31			2021
	The Bow	100 Wynford	2022	
Rental income earned	\$14,841	\$5,560	\$20,401	\$89,442
Rental income earned - non-cash	83,741	2,814	86,555	16,520
Straight-lining of contractual rent	—	265	265	1,908
Revenue reimbursement for property operating costs	45,975	1,764	47,739	44,044
Property operating costs	(45,998)	(1,866)	(47,864)	(44,027)
Net operating income	98,559	8,537	107,096	107,887
Finance cost - operations	—	—	—	(20,198)
Finance income	—	—	—	65
Accretion finance expense on deferred revenue - non-cash	(56,999)	(390)	(57,389)	(8,944)
Fair value adjustment on real estate assets - non-cash	(18,526)	(18,903)	(37,429)	57,464
Net income (loss)	23,034	(10,756)	12,278	136,274
Fair value adjustment on real estate assets	18,526	18,903	37,429	(57,464)
Non-cash rental income and accretion adjustment	(26,742)	(2,424)	(29,166)	(7,576)
FFO ⁽¹⁾	14,818	5,723	20,541	71,234
Straight-lining of contractual rent	—	(265)	(265)	(1,908)
Capital expenditures	—	(3,349)	(3,349)	(3,592)
AFFO ⁽¹⁾	\$14,818	\$2,109	\$16,927	\$65,734

⁽¹⁾ 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, net operating income from the Bow for the three months and year ended December 31, 2022 was \$3.7 million and \$14.8 million, respectively. Excluding the non-cash rental income adjustment under IFRS 15, net operating income from 100 Wynford for the three months and year ended December 31, 2022 was (\$0.1) million and \$5.7 million, respectively.

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 2022 (2021 - 23.8%).

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 2022	December 31 2021
(in thousands of Canadian dollars)		
Deferred tax assets:		
Net operating losses	\$84,420	\$76,655
Accounts payable and accrued liabilities	1,386	902
	85,806	77,557
Deferred tax liabilities:		
Investment properties	427,149	301,063
Equity accounted investments	141,705	126,995
Accounts payable and accrued liabilities	—	—
	568,854	428,058
Deferred tax liability	(\$483,048)	(\$350,501)

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 property exchange under Section 1031 of the U.S. Internal Revenue Code. Deferred tax liability increased by \$132.5 million from \$350.5 million as at December 31, 2021 to \$483.0 million as at December 31, 2022 primarily due to fair value adjustments on real estate assets and the strengthening of the U.S. dollar.

Unitholders' Equity

Unitholders' equity increased by \$713.5 million from approximately \$4.8 billion as at December 31, 2021 to approximately \$5.5 billion as at December 31, 2022, primarily due to an increase in net income and other comprehensive income (loss). This was partially offset by Units repurchased and cancelled and distributions to unitholders.

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") which allowed the REIT to purchase for cancellation up to a maximum of 14,000,000 Units. On April 19, 2022, the REIT received approval from the TSX to increase the maximum number of Units allowed to be repurchased on the open market to 28,269,228 Units until December 15, 2022. During the year ended December 31, 2022, the REIT purchased and cancelled 22,873,800 Units at a weighted average price of \$12.99 per Unit for a total cost of \$297.1 million, representing an approximate 40.4% discount to NAV per Unit (a non-GAAP ratio). During the year ended December 31, 2021, the REIT did not purchase any Units for cancellation.

On February 9, 2023, 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 26,028,249 Units on the open market until the earlier of February 15, 2024 and the date on which the REIT has purchased the maximum number of Units permitted under the NCIB.

Unitholders' Equity per Unit and NAV per Unit	December 31	December 31
(in thousands except for per Unit amounts)	2022	2021
Unitholders' equity	\$5,487,287	\$4,773,833
Exchangeable units	217,668	216,841
Deferred tax liability	483,048	350,501
Total	6,188,003	5,341,175
Units outstanding	265,885	288,440
Exchangeable units outstanding	17,974	13,344
Total	283,859	301,784
Unitholders' equity per Unit ⁽¹⁾	\$20.64	\$16.55
NAV per Unit ⁽²⁾	\$21.80	\$17.70

⁽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.

Unitholders' equity per Unit and NAV per Unit increased by \$4.09 per Unit and \$4.10 per Unit, respectively, from December 31, 2021 to December 31, 2022 primarily due to fair value increases to real estate assets during the year ended December 31, 2022 totalling approximately \$546.1 million.

The repurchasing of Units under H&R's NCIB had a \$0.61 and \$0.66 impact on Unitholders' equity per Unit and NAV per Unit, respectively. The Unitholders' equity per Unit and NAV per Unit without accounting for any Units being repurchased during the year ended December 31, 2022 would have been \$20.03 and \$21.14, respectively.

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	
	2022	2021	2022	2021
For each U.S. \$1.00	\$1.36 CAD	\$1.25 CAD	\$1.30 CAD	\$1.25 CAD

The following table reconciles the REIT's Results of Operations from the REIT's Financial Statements to the REIT's proportionate share:

(in thousands of Canadian dollars)	Three months ended December 31, 2022			Three months ended December 31, 2021		
	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share ⁽¹⁾	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share ⁽¹⁾
Rentals from investment properties	\$216,835	\$37,471	\$254,306	\$265,794	\$30,316	\$296,110
Property operating costs	(68,723)	(9,477)	(78,200)	(95,953)	(6,331)	(102,284)
Net operating income	148,112	27,994	176,106	169,841	23,985	193,826
Net income from equity accounted investments	53,473	(52,719)	754	89,298	(89,139)	159
Finance costs - operations	(55,625)	(11,736)	(67,361)	(61,922)	(9,115)	(71,037)
Finance income	3,204	60	3,264	3,014	3	3,017
Trust expenses	(11,012)	(1,100)	(12,112)	(4,780)	(2,021)	(6,801)
Fair value adjustment on financial instruments	(30,234)	481	(29,753)	50,804	393	51,197
Fair value adjustment on real estate assets	(224,480)	37,350	(187,130)	(13,005)	76,033	63,028
Gain (loss) on sale of real estate assets, net of related costs	(3,322)	(89)	(3,411)	3,192	97	3,289
Net income (loss) before income taxes and non-controlling interest	(119,884)	241	(119,643)	236,442	236	236,678
Income tax (expense) recovery	3,755	(18)	3,737	(28,247)	(23)	(28,270)
Net income (loss) before non-controlling interest	(116,129)	223	(115,906)	208,195	213	208,408
Non-controlling interest	—	(223)	(223)	—	(213)	(213)
Net income (loss)	(116,129)	—	(116,129)	208,195	—	208,195
Other comprehensive loss:						
Items that are or may be reclassified subsequently to net income (loss)	(71,875)	—	(71,875)	(24,996)	—	(24,996)
Total comprehensive income (loss) attributable to unitholders	(\$188,004)	\$—	(\$188,004)	\$183,199	\$—	\$183,199

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

Net income (loss) before income taxes and non-controlling interest per the REIT's Financial Statements decreased by \$356.3 million for the three months ended December 31, 2022 compared to the respective 2021 period primarily due to fair value adjustments on real estate assets and financial instruments, lower net income from equity accounted investments, as well as a decrease in net operating income due to the Primaris Spin-Off and other property dispositions.

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The following table reconciles the REIT's Results of Operations from the REIT's Financial Statements to the REIT's proportionate share:

(in thousands of Canadian dollars)	Year ended December 31, 2022			Year ended December 31, 2021		
	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share ⁽¹⁾	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share ⁽¹⁾
Rentals from investment properties	\$834,640	\$130,312	\$964,952	\$1,065,380	\$106,990	\$1,172,370
Property operating costs	(299,691)	(38,230)	(337,921)	(403,798)	(34,879)	(438,677)
Net operating income	534,949	92,082	627,031	661,582	72,111	733,693
Net income from equity accounted investments	47,139	(46,007)	1,132	125,649	(125,555)	94
Finance costs - operations	(220,262)	(40,026)	(260,288)	(236,878)	(36,302)	(273,180)
Finance income	14,793	88	14,881	17,229	16	17,245
Trust expenses	(22,121)	(3,242)	(25,363)	(27,936)	(4,150)	(32,086)
Fair value adjustment on financial instruments	38,349	2,910	41,259	43,859	1,282	45,141
Fair value adjustment on real estate assets	546,081	(4,802)	541,279	12,984	72,729	85,713
Gain on sale of real estate assets, net of related costs	7,332	161	7,493	6,957	20,874	27,831
Net income before income taxes and non-controlling interest	946,260	1,164	947,424	603,446	1,005	604,451
Income tax expense	(101,437)	(197)	(101,634)	(5,539)	(104)	(5,643)
Net income before non-controlling interest	844,823	967	845,790	597,907	901	598,808
Non-controlling interest	—	(967)	(967)	—	(901)	(901)
Net income	844,823	—	844,823	597,907	—	597,907
Other comprehensive income (loss):						
Items that are or may be reclassified subsequently to net income	321,570	—	321,570	(23,575)	—	(23,575)
Total comprehensive income attributable to unitholders	\$1,166,393	\$—	\$1,166,393	\$574,332	\$—	\$574,332

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

Net income before income taxes and non-controlling interest per the REIT's Financial Statements increased by \$342.8 million for the year ended December 31, 2022 compared to the respective 2021 period primarily due to fair value increases to real estate assets. This was partially offset by a decrease in net operating income due to the Primaris Spin-Off and other property dispositions as well as lower net income from equity accounted investments.

Primaris Spin-Off

H&R's 2022 financial results were significantly impacted due to the 27 properties transferred by H&R to Primaris REIT on December 31, 2021. The impact of the Primaris Spin-Off on certain of H&R's financial results is shown in the table below:

(in thousands except for per Unit amounts)	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Rentals from investment properties	\$—	\$67,242	\$—	\$253,979
Net operating income	—	34,590	—	134,137
Net income	—	13,320	—	355,084
FFO ⁽¹⁾	—	30,199	—	116,367
AFFO ⁽¹⁾	—	20,419	—	87,834
FFO per Unit ⁽²⁾	\$—	\$0.100	\$—	\$0.386
AFFO per Unit ⁽²⁾	\$—	\$0.068	\$—	\$0.291

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

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

NET OPERATING INCOME

Net operating income consists of rentals from investment properties less property operating costs. Management believes that net 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-Property net operating income (cash basis), a non-GAAP financial measure, adjusts net operating income (including net 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-Property" refers to those properties owned by H&R for the entire two-year period ended December 31, 2022. It excludes acquisitions, business combinations, dispositions, spin-offs, and transfers of investment properties to or from properties under development during the two-year period ended December 31, 2022 (collectively, "Transactions"). Management believes that this measure is useful for investors as it adjusts net operating income (including net operating income from equity accounted investments on a proportionately consolidated basis) for non-cash items which allows investors to better understand period-over-period changes due to occupancy, rental rates, realty taxes and operating costs, before evaluating the changes attributable to Transactions. Furthermore, it is also used as a key input in determining the value of investment properties.

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2022	2021	Change	2022	2021	Change
Rentals from investment properties	\$216,835	\$265,794	(\$48,959)	\$834,640	\$1,065,380	(\$230,740)
Property operating costs	(68,723)	(95,953)	27,230	(299,691)	(403,798)	104,107
Net operating income per the REIT's Financial Statements	148,112	169,841	(21,729)	534,949	661,582	(126,633)
Adjusted for:						
Net operating income from equity accounted investments ⁽¹⁾	27,994	23,985	4,009	92,082	72,111	19,971
Straight-lining of contractual rent at the REIT's proportionate share ⁽¹⁾	(3,588)	(1,057)	(2,531)	(6,890)	(23,664)	16,774
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share ⁽¹⁾	(12,600)	(12,192)	(408)	—	—	—
Net operating income (cash basis) from Transactions at the REIT's proportionate share ⁽¹⁾	(35,249)	(68,121)	32,872	(143,032)	(294,822)	151,790
Same-Property net operating income (cash basis) ⁽¹⁾	\$124,669	\$112,456	\$12,213	\$477,109	\$415,207	\$61,902

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

Net operating income per the REIT's Financial Statements decreased by \$21.7 million and \$126.6 million, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to the Primaris Spin-Off and other property dispositions during the two-year period ended December 31, 2022. This was partially offset by an increase in Same-Property net operating income (cash basis) discussed below.

Net operating income from equity accounted investments increased by \$4.0 million and \$20.0 million, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to the following: (i) an increase in average occupancy at Jackson Park in 2022 compared to 2021; (ii) an increase in net operating income relating to ECHO; (iii) the lease-up of Shoreline in Long Beach, CA and (iv) the strengthening of the U.S. dollar.

Straight-lining of contractual rent at the REIT's proportionate share decreased by \$16.8 million for the year ended December 31, 2022 compared to the respective 2021 period was primarily due to Hess Corporation ("Hess") having a rent free period for its premises in Houston, TX for the six months ended June 30, 2021. In November 2020, H&R completed a lease extension and amending agreement with Hess, whereby Hess received a seven-month free rent period (from December 2020 to June 2021) 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 then current expiration of June 30, 2026.

Same-Property net operating income (cash basis) increased by \$12.2 million and \$61.9 million, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to the following: (i) the strengthening of the U.S. Dollar; (ii) strong rental rate growth from H&R's residential segment and an increase in average occupancy at Jackson Park in 2022 compared to 2021; (iii) contractual rental escalations and an increase in occupancy from H&R's industrial segment; and (iv) the lease-up of River Landing Commercial in Miami, FL. Same-Property net operating income (cash basis) for the year ended December 31, 2022 compared to the respective 2021 period further increased due to the Hess Lease Amendment.

Primaris Spin-Off

Due to the Primaris Spin-Off, there was no net operating income earned from these properties in 2022 while net operating income from these properties for the three months and year ended December 31, 2021 was \$34.6 million and \$134.1 million, respectively.

SEGMENTED INFORMATION

Operating Segments and Geographic Locations:

H&R has four reportable operating segments (Residential, Industrial, Office and Retail), 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 net operating income on a proportionately consolidated basis for the REIT’s equity accounted investments.

The Residential segment (operating as Lantower Residential) consists of 24 residential properties in select markets in the United States. As at December 31, 2022, the portfolio comprised of 8,164 residential rental units, at H&R’s ownership interest.

The Industrial segment consists of 71 industrial properties in Canada and three properties in the United States comprising 8.8 million square feet, at H&R’s ownership interest, with an average lease term to maturity of 5.5 years as at December 31, 2022.

The Office segment, excluding the Bow and 100 Wynford, consists of 20 properties in Canada and five properties in select markets in the United States, aggregating 6.8 million square feet, at H&R’s ownership interest, with an average lease term to maturity of 7.5 years as at December 31, 2022. The Office portfolio is leased on a long-term basis to creditworthy tenants, with 80.7% of office revenue from tenants with investment grade ratings. With long average lease terms resulting in less than 5.1% of square feet expiring during 2023, as well as high credit tenants, this segment tends to generate stable net operating income with gradual growth driven by contractual rental rate increases.

The Retail segment consists of 38 properties in Canada which are mostly grocery-anchored and single tenant properties as well as five 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 consisting of 237 properties, which focuses on developing and owning a core portfolio of grocery-anchored shopping centres in the United States. In total, this segment includes 38 properties in Canada and 243 properties in the United States comprising 5.7 million square feet, at H&R’s ownership interest, with an average lease term to maturity of 8.6 years as at December 31, 2022.

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

(in thousands of Canadian dollars)	Net operating income						Occupancy	
	Three months ended December 31			Year ended December 31			As at December 31	
	2022	2021	% Change	2022	2021	% Change	2022	2021
Operating Segment:								
Residential	\$45,742	\$38,968	17.4%	\$140,288	\$103,498	35.5%	94.5%	95.2%
Industrial	16,791	14,082	19.2%	63,737	59,685	6.8%	97.9%	97.6%
Office	84,181	80,334	4.8%	321,235	337,966	(5.0%)	98.6%	99.2%
Retail	29,392	60,442	(51.4%)	101,771	232,544	(56.2%)	95.3%	93.8%
The REIT’s proportionate share ⁽¹⁾	176,106	193,826	(9.1%)	627,031	733,693	(14.5%)	96.6%	96.6%
Less: equity accounted investments	(27,994)	(23,985)	16.7%	(92,082)	(72,111)	27.7%	96.8%	96.7%
The REIT’s Financial Statements	\$148,112	\$169,841	(12.8%)	\$534,949	\$661,582	(19.1%)	96.6%	96.6%
Geographic Location:								
Canada	82,429	113,000	(27.1%)	327,429	479,026	(31.6%)	98.1%	98.2%
United States	93,677	80,826	15.9%	299,602	254,667	17.6%	95.0%	94.7%
The REIT’s proportionate share ⁽¹⁾	176,106	193,826	(9.1%)	627,031	733,693	(14.5%)	96.6%	96.6%
Less: equity accounted investments	(27,994)	(23,985)	16.7%	(92,082)	(72,111)	27.7%	96.8%	96.7%
The REIT’s Financial Statements	\$148,112	\$169,841	(12.8%)	\$534,949	\$661,582	(19.1%)	96.6%	96.6%

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

Net operating income across all operating segments was positively impacted by the strengthening of the U.S. dollar for the three months and year ended December 31, 2022 compared to the respective 2021 periods. The following explanations for changes in net operating income are in addition to the impact of foreign exchange.

Net operating income from residential properties increased by 17.4% and 35.5%, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods primarily due to the following: (i) an increase in rental revenue from rental rate growth; (ii) an increase in average occupancy at Jackson Park in 2022 compared to 2021; and (iii) the lease-up of River Landing Residential in Miami, FL, which was substantially completed in Q2 2021.

Net operating income from industrial properties increased by 19.2% and 6.8%, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods primarily due to an increase in occupancy, contractual rental escalations and the acquisition of 77 Union Street in Toronto, ON in December 2021. This was partially offset by a decrease in net operating income due to properties sold.

Net operating income from office properties increased by 4.8% for the three months ended December 31, 2022 compared to the respective 2021 period, primarily due to the 200 Bouchard Lease Amendment. Net operating income from office properties decreased by 5.0% for the year ended December 31, 2022 compared to the respective 2021 period primarily due to properties sold. This was partially offset by the 200 Bouchard Lease Amendment, as well as a \$2.3 million lease termination fee received in Q3 2022 from an office property subsequently sold in Q4 2022.

Net operating income from retail properties decreased by 51.4% and 56.2%, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to the Primaris Spin-Off. Net operating income from the Primaris properties for the three months and year ended December 31, 2021 was \$34.6 million and \$134.1 million, respectively.

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-Property net operating income (cash basis) ⁽¹⁾						Occupancy (Same-Property)	
	Three months ended December 31			Year ended December 31			As at December 31	
	2022	2021	% Change	2022	2021	% Change	2022	2021
Operating Segment:								
Residential	\$34,059	\$29,351	16.0%	\$125,248	\$95,837	30.7%	95.1%	95.3%
Industrial	15,222	13,583	12.1%	58,046	54,149	7.2%	99.1%	97.5%
Office	49,669	47,862	3.8%	200,073	176,649	13.3%	98.7%	99.1%
Retail	25,719	21,660	18.7%	93,742	88,572	5.8%	95.3%	93.9%
The REIT's proportionate share ⁽¹⁾ (page 35)	\$124,669	\$112,456	10.9%	\$477,109	\$415,207	14.9%	97.2%	96.6%
Geographic Location:								
Ontario	33,464	32,334	3.5%	136,841	131,700	3.9%	98.8%	97.5%
Alberta	8,037	7,545	6.5%	31,638	31,386	0.8%	98.6%	98.2%
Other Canada	7,429	7,402	0.4%	29,796	29,524	0.9%	98.5%	100.0%
Total – Canada	48,930	47,281	3.5%	198,275	192,610	2.9%	98.7%	98.0%
United States	75,739	65,175	16.2%	278,834	222,597	25.3%	95.4%	95.0%
The REIT's proportionate share ⁽¹⁾ (page 35)	\$124,669	\$112,456	10.9%	\$477,109	\$415,207	14.9%	97.2%	96.6%
United States in U.S. dollars:								
Residential	25,103	23,481	6.9%	96,344	76,669	25.7%	95.1%	95.3%
Industrial	719	698	3.0%	2,827	2,808	0.7%	100.0%	100.0%
Office	16,132	16,083	0.3%	64,387	49,528	30.0%	100.0%	100.0%
Retail	13,865	11,878	16.7%	50,929	49,073	3.8%	92.8%	90.5%
U.S. total in U.S. dollars	\$55,819	\$52,140	7.1%	\$214,487	\$178,078	20.4%	95.4%	95.0%

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

Same-Property net operating income (cash basis) across all operating segments was positively impacted by the strengthening of the U.S. dollar for the three months and year ended December 31, 2022 compared to the respective 2021 periods. The following explanations for changes in Same-Property net operating income (cash basis) are in addition to the impact of foreign exchange.

Same-Property net operating income (cash basis) from residential properties in U.S. dollars increased by 6.9% and 25.7%, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to strong rental rate growth as well as an increase in average occupancy at Jackson Park in 2022 compared to 2021.

Same-Property net operating income (cash basis) from industrial properties increased by 12.1% and 7.2%, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to an increase in occupancy, including 2121 Cornwall Road in Oakville, ON whereby the lease commenced in September 2022, and strong rental rate growth.

Same-Property net operating income (cash basis) from office properties increased by 3.8% for the three months ended December 31, 2022 compared to the respective 2021 period, primarily due to the strengthening of the U.S. dollar. Same-Property net operating income (cash basis) from office properties increased by 13.3% for the year ended December 31, 2022 compared to the respective 2021 period, primarily due to the Hess Lease Amendment. Excluding the impact of the Hess Lease Amendment, Same-Property net operating income (cash basis) from office properties increased by 2.6% primarily due to contractual rental escalations and the strengthening of the U.S. dollar.

Same-Property net operating income (cash basis) from retail properties increased by 18.7% and 5.8%, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to the lease-up of River Landing Commercial in Miami, FL. In October 2022, rent commenced for the Office of the State Attorney, Eleventh Judicial Circuit of Miami-Dade County who is now occupying 49,379 square feet.

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

The following table provides a reconciliation of H&R's net income from equity accounted investments to FFO and AFFO from equity accounted investments:

(in thousands of Canadian dollars)	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Net income from equity accounted investments⁽¹⁾	\$53,473	\$89,298	\$47,139	\$125,649
Realty taxes in accordance with IFRIC 21	(1,316)	(1,178)	—	—
Fair value adjustments on financial instruments and real estate assets	(37,831)	(76,426)	1,892	(74,011)
(Gain) loss on sale of real estate assets	89	(97)	(161)	(20,874)
Gain on sale of real estate assets within ECHO's equity accounted investments	(627)	—	(627)	—
Incremental leasing costs	—	—	—	255
Notional interest capitalization ⁽²⁾	—	562	960	2,413
FFO from equity accounted investments⁽¹⁾	13,788	12,159	49,203	33,432
Straight-lining of contractual rent	(308)	204	(378)	(83)
Rent amortization of tenant inducements	285	262	1,087	1,040
Capital expenditures	(1,229)	(1,711)	(4,296)	(3,992)
Leasing expenses and tenant inducements	(1,052)	(109)	(2,089)	(850)
Incremental leasing costs	—	—	—	(255)
AFFO from equity accounted investments⁽¹⁾	\$11,484	\$10,805	\$43,527	\$29,292

⁽¹⁾ Each of these line items represent the REIT's proportionate share of equity accounted investments. These are non-GAAP measures defined in the "Non-GAAP Measures" section of this MD&A.

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

Net income from equity accounted investments decreased by \$35.8 million and \$78.5 million for the three months and year ended December 31, 2022 compared to the respective 2021 periods primarily due to fair value adjustments on real estate assets.

FFO from equity accounted investments increased by \$1.6 million and \$15.8 million, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods primarily due to the following: (i) an increase in average occupancy at Jackson Park in 2022 compared to 2021; (ii) an increase in net operating income and lower trust expenses relating to ECHO; and (iii) the strengthening of the U.S. dollar. This was partially offset by an increase in bad debt expense at Jackson Park in Q4 2022.

INCOME AND EXPENSE ITEMS

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

Finance Costs (in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2022	2021	Change	2022	2021	Change
Finance costs – operations:						
Contractual interest on mortgages payable	(\$16,141)	(\$23,556)	\$7,415	(\$67,506)	(\$124,203)	\$56,697
Contractual interest on debentures payable	(13,052)	(17,553)	4,501	(51,780)	(62,244)	10,464
Contractual interest on unsecured term loans	(5,508)	(4,444)	(1,064)	(18,969)	(18,553)	(416)
Bank interest and charges on lines of credit	(3,348)	(1,476)	(1,872)	(10,950)	(7,363)	(3,587)
Effective interest rate accretion	(1,052)	(2,951)	1,899	(4,207)	(7,881)	3,674
Accretion finance expense on deferred revenue	(13,868)	(8,944)	(4,924)	(57,389)	(8,944)	(48,445)
Exchangeable unit distributions	(3,368)	(3,636)	268	(10,692)	(11,088)	396
	(56,337)	(62,560)	6,223	(221,493)	(240,276)	18,783
Capitalized interest	712	638	74	1,231	3,398	(2,167)
	(55,625)	(61,922)	6,297	(220,262)	(236,878)	16,616
Finance income	3,204	3,014	190	14,793	17,229	(2,436)
Fair value adjustment on financial instruments	(30,234)	50,804	(81,038)	38,349	43,859	(5,510)
	(\$82,655)	(\$8,104)	(\$74,551)	(\$167,120)	(\$175,790)	\$8,670

The decrease in contractual interest on mortgages payable of \$7.4 million and \$56.7 million, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods is primarily due to mortgages repaid upon maturity and sale as well as the Primaris Spin-Off.

The decrease in contractual interest on debentures payable of \$4.5 million and \$10.5 million, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods is primarily due to the repayment of the Series L Senior Debentures in November 2021. The decrease in contractual interest on debentures payable for the year ended December 31, 2022 compared to the respective 2021 year was partially offset by the issuance of Series S Senior Debentures in February 2021.

The increase in contractual interest on unsecured term loans of \$1.1 million and \$0.4 million, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods is primarily due to H&R obtaining two new unsecured term loans in November 2022 totalling \$250.0 million. The increase in contractual interest on unsecured term loans for the year ended December 31, 2022 compared to the respective 2021 year was partially offset due to H&R repaying an outstanding \$200.0 million unsecured term loan in March 2021.

The increase in bank interest and charges on lines of credit of \$1.9 million and \$3.6 million respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods is primarily due to higher borrowing costs as a result of rising interest rates.

The accretion finance expense on deferred revenue of \$13.9 million and \$57.4 million, respectively, for the three months and year ended December 31, 2022 is due to the proceeds from the sale of the Bow and 100 Wynford being amortized over the terms of their respective leases as both sale transactions did not meet the criteria of a transfer of control under IFRS 15. Refer to the "Liabilities & Unitholders' Equity - Deferred Revenue" section of this MD&A for further information on the Bow and 100 Wynford sale transactions.

The fair value adjustment on financial instruments of (\$30.2) million and \$38.3 million, respectively, for the three months and year ended December 31, 2022 is due to: (i) the unrealized loss on fair value of exchangeable units of (\$30.7) million and (\$4.9) million,

respectively, which are fair valued at the end of each reporting period based on the quoted price of Units on the TSX; and (ii) an unrealized gain on derivative instruments of \$0.5 million and \$49.1 million, respectively, which is further described in the “*Derivative Instruments*” section of this MD&A. In addition, the fair value adjustment on financial instruments for the year ended December 31, 2022 included a realized loss on the sale of Primaris REIT units of \$5.8 million.

Trust expenses (in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2022	2021	Change	2022	2021	Change
General expenses	(\$8,310)	(\$8,238)	(\$72)	(\$28,655)	(\$28,937)	\$282
Third party property management fees earned	4,444	3,049	1,395	13,299	9,226	4,073
Unit-based compensation (expense) recovery	(670)	345	(1,015)	(4,593)	(3,142)	(1,451)
Fair value adjustment to unit-based compensation	(6,476)	64	(6,540)	(2,172)	(5,083)	4,368
Trust expenses	(\$11,012)	(\$4,780)	(\$6,232)	(\$22,121)	(\$27,936)	\$2,904

Third party property management fees earned increased by \$1.4 million and \$4.1 million, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to H&R retaining property management services on property dispositions including the Bow and Bell Office Campus sold in October 2021 and 100 Wynford sold in August 2022.

Unit-based compensation consists of the following two compensation plans: the REIT's Unit Option Plan and 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 consists of the difference between the grant price and the quoted price of Units on the TSX at each reporting period.

Unit-based compensation (expense) recovery increased by of \$1.0 million and \$1.5 million, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to the cancellation of incentive units for Primaris employees as part of the Primaris Spin-Off in Q4 2021 for the entire three year vesting period.

Fair Value Adjustment on Real Estate Assets (in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2022	2021	Change	2022	2021	Change
Operating Segment:						
Residential	\$61,982	\$62,826	(\$844)	\$503,851	\$89,075	\$414,776
Industrial	11,951	15,062	(3,111)	182,797	45,198	137,599
Office	(193,873)	(19,733)	(174,140)	(349,595)	(284,302)	(65,293)
Retail	(67,190)	(20,971)	(46,219)	(90,336)	202,795	(293,131)
Land and properties under development	—	25,844	(25,844)	294,562	32,947	261,615
Fair value adjustment on real estate assets per the REIT's proportionate share ⁽¹⁾	(187,130)	63,028	(250,158)	541,279	85,713	455,566
Less: equity accounted investments	(37,350)	(76,033)	38,683	4,802	(72,729)	77,531
Fair value adjustment on real estate assets per the REIT's Financial Statements	(\$224,480)	(\$13,005)	(\$211,475)	\$546,081	\$12,984	\$533,097

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

Fair value adjustments on real estate assets are determined based on the movement of various parameters, including changes in capitalization rates, discount rates, terminal capitalization rates and future cash flow projections.

The capitalization rates disclosed below are reported by segment at the REIT's proportionate share (including assets classified as held for sale) which differs from the REIT's Financial Statements. The Bow has been excluded from the Office and Total capitalization rates for all periods below and 100 Wynford has been excluded from Office and Total capitalization rates for September 30, 2022 and December 31, 2022 as these properties were legally sold in October 2021 and August 2022, respectively.

The financial results for the three months and year ended December 31, 2022 included significant fair value adjustments recorded in 2022.

	Residential	Industrial	Office	Retail	Total
December 31, 2022	4.20%	5.16%	6.43%	6.40%	5.37%
September 30, 2022	4.06%	5.12%	6.17%	6.28%	5.24%
June 30, 2022	3.79%	5.02%	5.99%	6.21%	5.10%
March 31, 2022	3.71%	5.02%	5.97%	6.26%	5.10%
December 31, 2021	4.34%	5.20%	6.09%	6.21%	5.43%

Q3 and Q4 2022

Since the spring of 2022, central banks around the world have been increasing interest rates in order to try to reduce inflation. There has been a significant decrease in real estate transactions due to the large increase in financing costs. There also continues to be headwinds surrounding the North American office market including the impact of hybrid work and work-from-home policies. Given this uncertainty, H&R has increased its weighted average capitalization rate as at September 30, 2022 with further increases as at December 31, 2022.

Q1 2022

Residential:

In Q1 2022, H&R reduced its capitalization rates on its residential properties from 4.34% as at December 31, 2021 to 3.71% as at March 31, 2022. Residential properties in the United States saw significant demand from investors and there were several large transactions in the sunbelt cities supporting a significant decline in capitalization rates. In June 2022, H&R sold a 312 residential rental unit property in San Antonio, TX for U.S. \$69.3 million at a capitalization rate of 3.6% which further supported the reduction in capitalization rates in Q1 2022. Furthermore, market rents continue to climb in many of H&R's residential property markets.

Industrial:

In Q1 2022, H&R reduced its capitalization rates on its Canadian industrial properties from 5.13% as at December 31, 2021 to 4.95% as at March 31, 2022. H&R received 53 external independent appraisals for its Canadian industrial portfolio in Q1 2022. Industrial properties in Canada have experienced a substantial increase in demand from both tenants and potential buyers, resulting in higher rents and lower capitalization rates.

Office:

H&R obtained nine external independent appraisals for its Canadian office properties in Q1 2022 and recorded fair value adjustments of \$53.7 million for the three months ended March 31, 2022.

Land and Properties under Development:

Industrial and residential properties under development saw significant demand from investors. The fair value increase of \$294.6 million is primarily due to H&R's industrial lands. H&R obtained an external appraisal for its lands in Caledon, ON in Q1 2022 which reflected the values of comparable land sales in the area. H&R also recognized fair value increases in Q1 2022 for two U.S. residential development projects which were approaching substantial completion and have since been transferred from properties under development to investment properties in Q2 2022.

Gain (loss) on Sale of Real Estate Assets (in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2022	2021	Change	2022	2021	Change
Gain (loss) on sale of real estate assets	(\$3,322)	\$3,192	(\$6,514)	\$7,332	\$6,957	\$375

For a list of property dispositions, refer to the "Assets" section of this MD&A.

During the year ended December 31, 2022, the REIT sold one U.S. residential property, 10 U.S. retail properties, a 50% interest in one Canadian industrial property, two Canadian office properties and two Canadian retail properties and recognized a gain on sale of real estate assets of \$7.3 million. During the year ended December 31, 2021, the REIT sold one U.S. office property, one U.S. retail property, one U.S. office property under development, a 50% interest in 16 Canadian industrial properties and four Canadian office properties and recognized a gain on sale of real estate assets of \$7.0 million.

<i>Income tax (expense) recovery</i> (in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2022	2021	Change	2022	2021	Change
Income tax computed at the Canadian statutory rate of nil applicable to H&R for 2022 and 2021	\$—	\$—	\$—	\$—	\$—	\$—
Current U.S. income tax expense	(341)	(290)	(51)	(1,329)	(1,081)	(248)
Deferred income tax (expense) recovery applicable to U.S. Holdco	4,096	(27,957)	32,053	(100,108)	(4,458)	(95,650)
Income tax (expense) recovery in the determination of net income (loss)	\$3,755	(\$28,247)	\$32,002	(\$101,437)	(\$5,539)	(\$95,898)

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) recovery changed by \$32.1 million and (\$95.7) million for the three months and year ended December 31, 2022 compared to the respective 2021 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, 2022, H&R had net deferred tax liabilities of \$483.0 million (December 31, 2021 - \$350.5 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 in the REALPAC Funds Real Property Association of Canada's (REALPAC) *White Paper on Funds From Operations and Adjusted Funds From Operations for IFRS*, except for the Bow and 100 Wynford non-cash rental and accretion adjustments which are further explained under the "Non-GAAP Measures" section of this MD&A.

FFO and AFFO (in thousands of Canadian dollars except per Unit amounts)	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Net income (loss) per the REIT's Financial Statements	(\$116,129)	\$208,195	\$844,823	\$597,907
Realty taxes in accordance with IFRIC 21	(11,284)	(11,014)	—	—
FFO adjustments from equity accounted investments (page 38)	(39,685)	(77,139)	2,064	(92,217)
Exchangeable unit distributions	3,368	3,636	10,692	11,088
Fair value adjustments on financial instruments and real estate assets	254,714	(37,799)	(584,430)	(56,843)
Fair value adjustment to unit-based compensation	6,476	(64)	2,172	5,083
(Gain) loss on sale of real estate assets, net of related costs	3,322	(3,192)	(7,332)	(6,957)
Deferred income tax expense (recoveries) applicable to U.S. Holdco	(4,096)	27,957	100,108	4,458
Incremental leasing costs	411	1,568	2,252	6,422
The Bow and 100 Wynford non-cash rental income and accretion adjustments	(9,223)	(7,576)	(29,166)	(7,576)
FFO⁽¹⁾	\$87,874	\$104,572	\$341,183	\$461,365
Straight-lining of contractual rent	(3,280)	(1,261)	(6,512)	(23,581)
Rent amortization of tenant inducements	1,209	1,149	4,691	4,557
Capital expenditures	(15,731)	(18,574)	(35,582)	(47,089)
Leasing expenses and tenant inducements	(4,874)	(6,737)	(8,516)	(18,865)
Incremental leasing costs	(411)	(1,568)	(2,252)	(6,422)
AFFO adjustments from equity accounted investments (page 38)	(2,304)	(1,354)	(5,676)	(4,140)
AFFO⁽¹⁾	\$62,483	\$76,227	\$287,336	\$365,825
Weighted average number of Units and exchangeable units (in thousands of Units) ⁽²⁾	283,859	301,779	290,782	301,772
Diluted weighted average number of Units and exchangeable units (in thousands of Units) ⁽²⁾⁽³⁾	285,076	302,612	291,999	302,605
FFO per basic Unit ⁽⁴⁾	\$0.310	\$0.347	\$1.173	\$1.529
FFO per diluted Unit ⁽⁴⁾	\$0.308	\$0.346	\$1.168	\$1.525
AFFO per basic Unit ⁽⁴⁾	\$0.220	\$0.253	\$0.988	\$1.212
AFFO per diluted Unit ⁽⁴⁾	\$0.219	\$0.252	\$0.984	\$1.209
Cash Distributions per Unit ⁽⁵⁾	\$0.188	\$0.272	\$0.590	\$0.790
Payout ratio as a % of FFO ⁽⁴⁾	60.6%	78.4%	50.3%	51.7%
Payout ratio as a % of AFFO ⁽⁴⁾	85.5%	107.5%	59.7%	65.2%

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

⁽²⁾ For the three months and year ended December 31, 2022, included in the weighted average and diluted weighted average number of Units are exchangeable units of 17,974,186 and 18,110,844, respectively. For 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.

⁽³⁾ For the three months and year ended December 31, 2022, included in the determination of diluted FFO and AFFO with respect to H&R's Incentive Unit Plan are 1,216,801 Units. 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 Incentive Unit Plan are 832,976 Units.

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

⁽⁵⁾ H&R's monthly distribution was \$0.0458 per Unit as at December 31, 2022, which increased from \$0.0433 per Unit in May 2022. Following the Primaris Spin-Off on December 31, 2021, Primaris REIT announced a monthly distribution of \$0.067 per Primaris REIT unit, reflecting \$0.80 per Primaris REIT unit on an annualized basis (equivalent to \$0.20 per 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 annual distribution for 2022 of \$0.54 per Unit equates to a combined distribution of \$0.74 per Unit for those investors that held Units as at December 31, 2021 and continue to hold both their Units and Primaris REIT units, which is a 7.2% increase over the \$0.69 per Unit paid by H&R in 2021, excluding any special distributions.

FFO from the Bow and 100 Wynford was \$3.6 million and \$20.5 million, respectively, for the three months and year ended December 31, 2022 compared to \$8.9 million and \$71.2 million, respectively, for the three months and year ended December 31, 2021. AFFO from the Bow and 100 Wynford was \$3.0 million and \$16.9 million, respectively, for the three months and year ended December 31, 2022 compared to \$7.3 million and \$65.7 million, respectively, for the three months and year ended December 31, 2021.

Due to the Primaris Spin-Off, there was no FFO and AFFO earned from these properties in 2022. FFO from the Primaris properties for the three months and year ended December 31, 2021 was \$30.2 million and \$116.4 million, respectively. AFFO from the Primaris properties for the three months and year ended December 31, 2021 was \$20.4 million and \$87.8 million, respectively.

FFO decreased by \$16.7 million and \$120.2 million, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to a decrease in net operating income as a result of the Primaris Spin-Off and other property dispositions, including the Bow. This was partially offset by a decrease in finance costs as the proceeds from these dispositions were used to repay debt.

AFFO decreased by \$13.7 million and \$78.5 million, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to a decrease in net operating income as a result of the Primaris Spin-Off and other property dispositions during the two-year period ended December 31, 2022, including the Bow. This was partially offset by a decrease in finance costs as well as lower capital expenditures, leasing expenses and tenant inducements. The decrease in AFFO for the year ended December 31, 2022 compared to the respective 2021 period was partially offset by the Hess Lease Amendment.

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

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2022	2021	Change	2022	2021	Change
Lease termination fees	\$314	\$63	\$251	\$2,630	\$3,721	(\$1,091)
Adjustment to straight-lining of contractual rent	222	(132)	354	614	(132)	746
Bad debt expense	(2,789)	(951)	(1,838)	(4,866)	(3,704)	(1,162)
Debt prepayment costs	—	(4,702)	4,702	—	(4,768)	4,768
Costs incurred for abandoned transactions	(316)	(355)	39	(316)	(355)	39
	(\$2,569)	(\$6,077)	\$3,508	(\$1,938)	(\$5,238)	\$3,300

Excluding the above items, FFO would have been \$90.4 million for the three months ended December 31, 2022 (Q4 2021 - \$110.6 million) and \$0.319 per basic Unit (Q4 2021 - \$0.367 per basic Unit). For the year ended December 31, 2022, FFO would have been \$343.1 million (Q4 2021 - \$466.6 million) and \$1.180 per basic Unit (Q4 2021 - \$1.546 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		
	2022	2021	Change	2022	2021	Change
Residential:						
Capital expenditures	\$9,751	\$8,086	\$1,665	\$23,871	\$15,802	\$8,069
Leasing expenses and tenant inducements	—	—	—	—	—	—
Industrial:						
Capital expenditures	2,014	244	1,770	2,441	2,683	(242)
Leasing expenses and tenant inducements	4,820	2,927	1,893	6,476	5,272	1,204
Office:						
Capital expenditures	4,143	5,777	(1,634)	9,625	16,399	(6,774)
Leasing expenses and tenant inducements	54	271	(217)	1,374	3,393	(2,019)
Retail:						
Capital expenditures	1,052	6,178	(5,126)	3,941	16,197	(12,256)
Leasing expenses and tenant inducements	1,052	3,648	(2,596)	2,755	11,050	(8,295)
Total at the REIT's proportionate share ⁽¹⁾	22,886	27,131	(4,245)	50,483	70,796	(20,313)
Less: equity accounted investments	(2,281)	(1,820)	(461)	(6,385)	(4,842)	(1,543)
Total per the REIT's Financial Statements ⁽²⁾	\$20,605	\$25,311	(\$4,706)	\$44,098	\$65,954	(\$21,856)

⁽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.

Capital expenditures from the Residential segment for the three months and year ended December 31, 2022 included \$3.0 million and \$6.4 million, respectively, relating to value-add and repositioning initiatives undertaken at H&R's two oldest residential rental communities which include unit upgrades, clubhouse upgrades and amenity additions.

Leasing expenses and tenant inducements from the Industrial segment for the three months and year ended December 31, 2022 included \$3.1 million for both periods relating to lease expenses paid to a single tenant as part of 10-year lease extensions at four properties that they occupy.

Capital expenditures from the Office segment for the three months and year ended December 31, 2022 included \$1.1 million and \$1.1 million, respectively, relating to washroom upgrades at an Ottawa, ON office property.

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	Year ended	Year ended	Year ended
	December 31	December 31	December 31	December 31
	2022	2022	2021	2020
Cash provided by operations	\$74,741	\$255,054	\$452,107	\$426,928
Net income (loss)	(116,129)	844,823	597,907	(624,559)
Distributions	49,827	159,785	227,312	263,572
Excess cash provided by operations over total distributions	24,914	95,269	224,795	163,356
Excess (shortfall) of net income (loss) over total distributions	(165,956)	685,038	370,595	(888,131)

Cash provided by operations exceeded total distributions for all periods noted above. Distributions exceeded net income (loss) for the three months ended December 31, 2022 and year ended December 31, 2020 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 \$116.1 million and \$624.6 million for the three months ended December 31, 2022 and the year ended December 31, 2020, respectively, were primarily due to fair value adjustments.

Major Cash Flow Components

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2022	2021	Change	2022	2021	Change
Cash and cash equivalents, beginning of year	\$65,809	\$52,364	\$13,445	\$124,141	\$62,859	\$61,282
Cash flows from operations	74,741	117,484	(42,743)	255,054	452,107	(197,053)
Cash flows from investing	22,774	1,192,142	(1,169,368)	225,954	1,495,814	(1,269,860)
Cash flows used for financing	(86,437)	(1,237,849)	1,151,412	(528,262)	(1,886,639)	1,358,377
Cash and cash equivalents, end of year	\$76,887	\$124,141	(\$47,254)	\$76,887	\$124,141	(\$47,254)

Cash flows from operations decreased by \$42.7 million and \$197.1 million, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to a decrease in net operating income as a result of the Primaris Spin-Off and other property dispositions during the two-year period ended December 31, 2022 as well as a decrease due to changes in non-cash working capital. This was partially offset by a decrease in interest paid.

Cash flows from investing decreased by approximately \$1.2 billion and \$1.3 billion, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to higher proceeds received from dispositions of real estate assets in 2021, mainly as a result of the Bow and Bell Office Campus sale in October 2021.

Cash flows used for financing decreased by approximately \$1.2 billion and \$1.4 billion, respectively, for the three months and year ended December 31, 2022 compared to the respective 2021 periods, primarily due to higher debt repayments in 2021, net of new debt resulting mainly from proceeds received from the Bow and Bell Office Campus sale in October 2021. The decrease for the year ended December 31, 2022 compared to the respective 2021 period was partially offset by Units repurchased during the year ended December 31, 2022.

Capital Resources

As at December 31, 2022, H&R had cash and cash equivalents of \$76.9 million and amounts available under its lines of credit totalling \$930.4 million. Subject to market conditions, management expects to be able to meet all of the REIT's ongoing contractual obligations. As at December 31, 2022, the REIT was not in default or arrears on any of its obligations including interest or principal payments on debt and any debt covenant. As at December 31, 2022, H&R had 123 unencumbered properties (including properties under development), with a fair value of approximately \$4.9 billion. Also, due to H&R's 26-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, 2022, H&R had 13 properties valued at approximately \$380.3 million which are encumbered with mortgages totalling \$74.7 million. In this pool of assets, the average loan to value is 19.6%, the minimum loan to value is 9.4% and the maximum loan to value is 28.3%. The weighted average remaining term to maturity of this pool of mortgages is 2.2 years.

The following is a summary as at December 31, 2022 of material contractual obligations including payments due for the next five years and thereafter:

Contractual Obligations ⁽¹⁾ (in thousands of Canadian dollars)	Payments Due by Period				Total
	2023 ⁽²⁾	2024- 2025	2026- 2027	2028 and thereafter	
Mortgages payable	\$187,826	\$224,031	\$533,360	\$676,434	\$1,621,651
Senior debentures	250,000	750,000	550,000	—	1,550,000
Unsecured term loans	—	500,000	250,000	—	750,000
Lines of credit	12,500	—	—	—	12,500
Liabilities classified as held for sale	6,323	—	—	—	6,323
Lease liability ⁽²⁾	1,240	2,554	2,658	186,798	193,250
Property Acquisitions	—	—	—	—	—
Committed Developments ⁽³⁾	213,850	66,965	—	—	280,815
Total contractual obligations	\$671,739	\$1,543,550	\$1,336,018	\$863,232	\$4,414,539

⁽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.

⁽³⁾ Committed Developments includes West Love, Midtown, 1965 Meadowvale Blvd. and 1925 Meadowvale Blvd.

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.

On October 13, 2022, DBRS downgraded H&R's Issuer Rating and Senior Unsecured Debentures rating to BBB from BBB (high) and changed the trends to Stable from Negative. A credit rating of BBB 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, 2022, H&R had cash and cash equivalents of \$76.9 million, \$930.4 million available under its unused lines of credit and an unencumbered property pool of approximately \$4.9 billion.

The following summarizes the estimated loan to value ratios on investment 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
2023	9	\$144,678	3.0%	\$589,699	25%
2024	3	36,872	3.9%	117,200	31%
2025	9	109,317	3.9%	290,824	38%
2026	5	50,637	4.3%	211,700	24%
2027	10	426,911	4.1%	1,199,600	36%
	36	\$768,415	3.9%	\$2,409,023	32%

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, 2022, H&R has outstanding letters of credit totalling \$42.1 million (December 31, 2021 - \$20.1 million), including \$20.7 million (December 31, 2021 - \$1.9 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, 2022, such guarantees amounted to \$89.1 million which expire in 2023 (December 31, 2021 - \$121.7 million, which expire between 2022 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 title to each of its properties owned. In January 2023, the REIT was released from \$6.9 million of these guarantees.

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, 2022, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, was \$215.7 million, which expire between 2024 and 2030 (December 31, 2021 - \$580.0 million – which expire 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, 2022, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, was \$91.3 million, which expire between 2024 and 2027 (December 31, 2021 - \$111.1 million, which expire between 2022 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, 2022. This strategy manages risks related to foreign exchange rates on transactions that will occur in the future.

During 2021 and 2022, 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	December 31	Years ended December 31	
		2022	2021	2022	2021
Term loan interest rate swap ⁽¹⁾	March 17, 2021	\$—	\$—	\$—	\$469
Term loan interest rate swap ⁽²⁾	May 7, 2030	26,875	(4,157)	31,032	16,640
Term loan interest rate swap ⁽³⁾	January 6, 2026	11,286	(7,060)	18,346	13,963
Term loan interest rate swap ⁽⁴⁾	September 29, 2027	(302)	—	(302)	—
Incentive units swaps ⁽⁵⁾	2021	—	—	—	(3,194)
		\$37,859	(\$11,217)	\$49,076	\$27,878

⁽¹⁾ To fix the interest rate at 2.56% per annum for the U.S. \$130.0 million term loan, which settled in March 2021.

⁽²⁾ To fix the interest rate at 3.17% per annum for the \$250.0 million term loan.

⁽³⁾ To fix the interest rate at 4.16% per annum for the \$250.0 million term loan.

⁽⁴⁾ To fix the interest rate at: (i) 5.29% per annum for the \$125.0 million term loan; and (ii) 5.19% per annum for the \$125.0 million.

⁽⁵⁾ To fix the payout on incentive units, which 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.

SELECTED FINANCIAL INFORMATION

Summary of Annual Information

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

(in thousands of Canadian dollars except per Unit amounts)	Year Ended	Year Ended	Year Ended
	December 31	December 31	December 31
	2022	2021	2020
Rentals from Investment properties	\$834,640	\$1,065,380	\$1,098,680
Net income (loss) from equity accounted investments	47,139	125,649	(16,986)
Finance income	14,793	17,229	33,399
Net income (loss)	844,823	597,907	(624,559)
Total comprehensive income (loss)	1,166,393	574,332	(711,221)
Total assets	11,412,603	10,501,141	13,355,444
Total liabilities	5,925,316	5,727,308	7,284,053
Cash Distributions per Unit	\$0.590	\$0.790	\$0.920

Summary of Quarterly Information

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

(in thousands of Canadian dollars)	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Rentals from investment properties	\$216,835	\$213,709	\$202,394	\$201,702
Net income (loss) from equity accounted investments	53,473	(60,071)	8,884	44,853
Net income (loss)	(116,129)	(121,496)	112,457	969,991
Total comprehensive income (loss) attributable to unitholders	(188,004)	172,927	248,581	932,889

	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Rentals from investment properties	\$265,794	\$268,792	\$264,327	\$266,467
Net income from equity accounted investments	89,298	23,532	5,628	7,191
Net income	208,195	135,320	94,853	159,539
Total comprehensive income attributable to unitholders	183,199	218,067	39,440	133,626

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 increased by \$3.1 million in Q4 2022 compared to Q3 2022 primarily due to the lease-up of River Landing Commercial in Miami, FL and rent commencing at 2121 Cornwall Road, an industrial property in Oakville, ON.

Net income (loss) from equity accounted investments increased by \$113.5 million in Q4 2022 compared to Q3 2022 primarily due to a fair value increase to Jackson Park in Q4 2022. The increase in value is a result of occupancy stabilization and a significant reduction in leasing incentives which were originally given to tenants at the onset of the COVID-19 pandemic.

Net loss decreased by \$5.4 million in Q4 2022 compared to Q3 2022 primarily due to the increase in net income (loss) from equity accounted investments noted above which was partially offset by the fair value adjustment on financial instruments and lower deferred income tax recoveries in Q4 2022.

Total comprehensive income decreased by \$360.9 million in Q4 2022 compared to Q3 2022 primarily due to a foreign currency loss from investment in foreign operations of \$71.9 million in Q4 2022 compared to a gain of \$294.4 million in Q3 2022 partially offset by the decrease in net loss noted above.

SECTION IV**NON-GAAP MEASURES AND NON-GAAP RATIOS**

The REIT's Financial Statements are prepared in accordance with IFRS. However, in this MD&A, a number of measures and ratios are presented that are not measures or ratios under GAAP in accordance with IFRS. These measures and ratios, as well as the reasons why management believes these measures and ratios 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.

Non-GAAP Measures**(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 REIT's financial position and share of net income (loss) from H&R's equity accounted investments on a proportionately consolidated basis at H&R's ownership interest in 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. Refer to the "Financial Position" and "Results of Operations" sections of this MD&A for reconciliations from the REIT's Financial Statements to the REIT's proportionate share.

(b) Net operating income (cash basis) and Same-Property net operating income (cash basis)

Net operating income (cash basis) is a non-GAAP measure used by H&R to assess performance for properties owned. It adjusts net operating income to exclude four 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.
- (iii) The Bow non-cash rental adjustment. This is a result of the Bow sale transaction not meeting the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of the Bow. The REIT is legally only entitled to 15% of the lease revenue from the Ovintiv lease, however, under IFRS 15, 100% of the lease revenue is recognized in the REIT's Financial Statements, resulting in 85% of the recognized lease revenue being non-cash.
- (iv) 100 Wynford non-cash rental adjustment. This is a result of the 100 Wynford sale transaction not meeting the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of 100 Wynford. Under IFRS 15, the REIT recognizes 100% of the lease revenue in the REIT's Financial Statements which represents a non-cash item.

Net operating income was previously referred to as property operating income in the REIT's Financial Statements for the year ended December 31, 2021, but has been renamed effective as of March 31, 2022; and H&R's MD&A has been updated to reflect this change. Net operating income (cash basis) was previously referred to as property operating income (cash basis) in the REIT's MD&A for the year ended December 31, 2021, but has been renamed effective as of March 31, 2022. Other than a new adjustment in respect of 100 Wynford, the composition of both metrics remains unchanged.

Same-Property net 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, 2021. Same-Property net operating income (cash basis) adjusts net operating income to include net operating income from equity accounted investments on a proportionately consolidated basis at H&R's ownership interest of the applicable investment. Same-Property net operating income (cash basis) also excludes the first two non-cash items noted above as the Bow and 100 Wynford have been included in Transactions.

Same-Property net operating income (cash basis) further excludes:

- Acquisitions, business combinations, dispositions, spin-offs, and transfers of investment properties to or from properties under development during the two-year period ended December 31, 2022 (collectively, "Transactions").

Same-Property net operating income (cash basis) was previously referred to as Same-Asset property operating income (cash basis) in the REIT's MD&A for the year ended December 31, 2021, but has been renamed effective as of March 31, 2022. The composition of this metric remains unchanged.

Management believes net operating income (cash basis) is useful for investors as it adjusts net operating income for non-cash items which allows investors to better understand the cash-on-cash performance of a property. Management believes that Same-Property net operating income (cash basis) is useful for investors as it adjusts net operating income (including net 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 “*Net Operating Income*” section in this MD&A for a reconciliation of net operating income to Same-Property net 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 in the REALPAC Funds Real Property Association of Canada’s (REALPAC) *White Paper on Funds From Operations and Adjusted Funds From Operations for IFRS*, except for “the Bow and 100 Wynford non-cash rental and accretion adjustments”.

The Bow office property in Calgary, AB was legally disposed of in October 2021. The 100 Wynford office property in Toronto, ON was legally disposed of in August 2022.

- 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 as the REIT has an option to repurchase 100% of the Bow. The REIT is legally only entitled to 15% of the lease revenue from the Ovintiv lease, however, under IFRS 15, 100% of the lease revenue is recognized in the REIT’s Financial Statements, resulting in 85% of the recognized lease revenue being non-cash.
- 100 Wynford non-cash rental adjustment is a result of the 100 Wynford sale transaction not meeting the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of 100 Wynford. Under IFRS 15, the REIT recognizes 100% of the lease revenue in the REIT’s Financial Statements which represents a non-cash item.
- The Bow and 100 Wynford non-cash accretion adjustments are a result of the sale proceeds received by the REIT recorded as deferred revenue and amortized over the remaining terms of the respective leases, consisting of principal and interest in the REIT’s Financial Statements.

Therefore, the non-cash components of lease revenue and the interest accretion finance expense have both been adjusted in calculating FFO as the Bow and 100 Wynford non-cash rental and accretion adjustments.

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 relevant 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.

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.

Non-GAAP Ratios**(a) 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, lines of credit payable to lenders and liabilities classified as held for sale. Adjusted EBITDA is calculated by taking the sum of net operating income (excluding straight-lining of contractual rent, IFRIC 21, as well as the Bow and 100 Wynford non-cash rental adjustments) and finance income and subtracting trust expenses (excluding the fair value adjustment to unit-based compensation) for the last 12 months. The Bow's 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. 100 Wynford's non-cash rent is due to the REIT recognizing 100% of the lease revenue from the Bell lease in the REIT's Financial Statements in accordance with IFRS 15. 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 and a reconciliation of Adjusted EBITDA to net income (loss) is presented in the *"Liabilities and Unitholders' Equity"* section of this MD&A.

(b) Debt to total assets at the REIT's proportionate share

H&R's Declaration of Trust 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, lines of credit payable to lenders and liabilities classified as held for sale. Total assets have been adjusted to exclude the Bow and 100 Wynford, which the REIT legally disposed of in October 2021 and August 2022, respectively. These transactions 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 for \$737.0 million in 2038 or earlier under certain circumstances and 100% of 100 Wynford for \$159.7 million in 2036 or earlier under certain circumstances. As a result, the REIT continues to recognize these two income producing properties in its consolidated statement of financial position, and the fair values of the Bow and 100 Wynford will be adjusted over the remaining lives of their respective leases, bringing the value of each real estate asset to nil by their respective 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.

(c) FFO per Unit and AFFO per Unit

FFO and AFFO per Unit are non-GAAP ratios calculated by dividing FFO and AFFO, respectively, by the weighted average number of Units and exchangeable units outstanding, basic or diluted, respectively, for the corresponding period. Refer to FFO and AFFO above for H&R's commentary on why these measures are useful for assessing operating performance.

(d) 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 cash distributions per Unit 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 to 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.

(e) 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" section of this MD&A for a calculation of NAV per Unit and a reconciliation of NAV per Unit to Unitholders' equity and Unitholders equity per Unit.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 the REIT 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, 2022, 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, 2022. 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, 2022 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, 2022. No changes were made to H&R's internal control over financial reporting during the three-month period ended December 31, 2022 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.

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.

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 disease outbreaks, 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 including for example, the impact of hybrid working and working from home with respect to the office market. 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. Global inflation, exacerbated by supply chain issues and other macroeconomic conditions and geopolitical uncertainties, may keep central banks aggressive in their attempts to mitigate pricing pressures. With heightened interest rates and market sentiment deteriorating, the risk of a global recession is increasing.

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. Increasing interest rates may put competitive pressure on the levels of distributable income paid by H&R to Unitholders, increasing the level of competition for capital faced by H&R, which could have a material adverse effect on the trading price of the Units.

A significant component of the REIT's ability to successfully operate relates to certain external factors that are beyond the REIT's control, particularly interest rates and capital markets conditions. As interest rates fluctuate in the lending market, generally so do capitalization rates which affect the underlying value of real estate. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over the period of investment, capital gains and losses at the time of disposition can occur due to the increase or decrease of these capitalization rates.

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 (residential, industrial, office and retail) and acquires properties throughout Canada and the United States. In addition, management ensures that no tenant or related group of tenants, other than investment grade tenants, account for a significant portion of the cash flow. The only tenants which individually account for more than 5% of the rentals from investment properties of H&R are Hess Corporation and New York City Department of Health. 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 or in re-leasing space vacated by tenants upon lease expiry, or that H&R may not achieve rental rate increases upon such renewals. 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 47.1% 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 Rate and Other Debt-Related Risks

H&R is exposed to financing risks on maturing debt and interest rate risk on its borrowings. The recent trend of increasing interest rates 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 have been and may continue to 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 as a result of a disease outbreak; (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 and U.S. lines of credit, each of which are 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. The costs of holding real estate are considerable and during an economic recession the REIT may be faced with ongoing expenditures with a declining prospect of incoming receipts. 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 a disease outbreak or a recession, would prevent prompt disposition of assets. Furthermore, increases in interest rates generally cause a decrease in the demand for properties. Higher interest rates and more stringent borrowing requirements, whether mandated by law or required by banks, could have a material adverse effect on the REIT's ability to sell any of its properties or execute on its transformational strategic repositioning plan.

Risks Associated with Disease Outbreaks

A local, regional, national or international outbreak of a contagious disease, including, but not limited to, the ongoing COVID-19 pandemic, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in restrictive measures being taken by various governments and businesses which may result 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 any disease outbreak on the REIT and the efficacy of any government interventions are difficult to predict. As such, it is not possible to reliably estimate the length and severity of any impacts related to disease outbreaks on the financial results and operations of the REIT. Disruptions caused by a disease outbreak may negatively impact 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. In addition, the REIT may experience delays with its current and future development projects.

The extent of the effect of any ongoing disease outbreak on the REIT's operational and financial performance will depend on numerous factors, including the duration, spread and intensity of the outbreak, the actions by governments and others taken to contain the outbreak or mitigate its impact, changes in the preferences of tenants and prospective tenants, and the direct and indirect economic effects of the outbreak and containment measures, all of which are uncertain and difficult to predict as such factors evolve rapidly over the course of any such disease outbreak. As a result, it is not possible to reliably ascertain the long-term impact of any disease outbreak 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 by disease outbreaks 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 such outbreak, 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 any disease outbreak 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.

With respect to the COVID-19 pandemic in particular, while many pandemic-related risks are receding and measures to contain the spread of the virus have lifted in many regions, the pandemic continues to have, and a new disease outbreak could have, an impact on the global economy, including contributing to high levels of inflation, rising interest rates (to mitigate inflation) and the resulting threat of recession. In addition, public health measures continue to be implemented in certain regions or countries and may be reinstated in other areas. 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 evaluate governmental actions being taken to curtail its spread.

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.

ESG 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. In addition, H&R may become subject to transition risks as a result of the process of shifting to a low-carbon economy, influenced by new and emerging climate-related public policies and regulations, technologies, stakeholder expectations and legal developments. 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, earthquakes and severe weather such as hurricanes, tornadoes, floods, ice storms, blizzards, rising temperatures and other adverse weather and climate conditions may result in damage to the REIT's investment and development properties, decreased property values and reduced rental revenue (including from increased vacancy). The extent of H&R's casualty losses and loss in net 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 the REIT's investment and development properties, by increasing property insurance costs to insure an investment property against natural disasters and severe weather events and/or by increasing energy costs at the REIT's investment properties. As a result, the consequences of natural disasters, severe weather and climate change could increase H&R's costs and reduce H&R's cash flow.

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. Evolving stakeholder expectations and H&R's efforts and ability to manage these issues, provide updates on them, and carry out its environmental and sustainability practices and initiatives presents numerous operational, regulatory, reputational, financial, legal, and other risks, any of which may be outside of H&R's control or could have a material adverse impact on H&R's business. H&R's failure or perceived failure to maintain its environmental and sustainability practices or comply with emerging regulations that meet evolving regulatory or stakeholder expectations could harm H&R's reputation and expose H&R to increased scrutiny from the investment community and enforcement authorities.

In addition, there are currently no universal or commonly accepted ESG or impact reporting standards and no assurance can be given that such standards will develop over time or, if such standards develop in the future, that the REIT's practices will align with such standards. Accordingly, no assurance is or can be given to investors that the REIT's focus on goals and key performance indicators, the REIT's Sustainability Policy, Green Financing Framework or otherwise will meet investor expectations regarding ESG-related or impact investing. Similarly, there is no legal, regulatory or market definition of or standardized criteria for what constitutes a "green", "social", "sustainable" or other equivalently labeled investment and any such designations made by third parties may not be suitable for the investment criteria of an investor. No assurance can be given that such definitions or consensus will develop over time or, if such definitions or consensus develop in the future, that initiatives undertaken by the REIT in accordance with its Sustainability Policy, Green Financing Framework or otherwise will meet such definitions or consensus. Accordingly, an investment in Units may not meet any or all investor expectations regarding "green", "social", "sustainable" or other equivalently labeled performance objectives.

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 and Investment 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 and investments. 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 or investment.

Dependence on Key Personnel and Succession Planning

The REIT's continued growth is dependent on its ability to hire, retain and develop its leaders and other key personnel. Any failure to effectively attract and retain talented and experienced employees and to establish adequate succession planning and retention strategies could result in a lack of requisite knowledge, skill and experience. This could erode H&R's competitive position or result in increased costs and competition for, or high turn-over of, employees. Any of the foregoing could negatively affect H&R's ability to operate its business and execute its strategies, which in turn, could adversely affect its reputation, operations or financial performance.

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 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 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 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 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.

Challenging market conditions, the health of the economy as a whole and numerous other factors beyond the control of H&R may have a material effect on the business, financial condition, liquidity and results of operations of H&R. Financial markets have previously experienced significant price and volume fluctuations that have particularly affected the market prices of securities of issuers and that have often been unrelated to the operating performance, underlying asset values or the prospects of such issuers. There can be no assurance that such fluctuations in price and volume will not occur again. Accordingly, the market price of Units may decline even if H&R's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil occur, H&R's operations could be adversely impacted and the trading price of the Units may be adversely affected.

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 a disease outbreak 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 H&R's 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 H&R. In addition, legislation has been enacted in the Province 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 H&R's obligations to the extent

that claims are not satisfied out of H&R's assets. It is intended that H&R'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 \$50,000.00 (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, 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 that is distributed to its investors or of a publicly traded partnership 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 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 2022. Management of H&R intends to conduct the affairs of H&R so that it qualifies for the REIT Exemption at all future times. However, as the REIT Exemption includes complex revenue and asset tests, no assurances can be provided that H&R has qualified for the REIT Exemption for its 2022 taxation year or will qualify for the REIT Exemption for its current or any subsequent taxation year. H&R currently qualifies as a mutual fund trust for purposes of the Tax Act. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the Canada Revenue Agency, including in respect of the treatment of mutual fund trusts or SIFT trusts, will not be changed in a manner which adversely affects H&R or holders of Units. If H&R does not qualify as a "mutual fund trust" under the Tax Act or were to cease to so qualify, the income tax considerations applicable to

H&R and an investment in Units would be materially and adversely different. For example, if H&R were to cease to qualify as a mutual fund trust and the Units cease to be listed on a designated stock exchange (which currently includes the TSX), the Units may cease to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds and first home savings accounts, and will cease to be qualified investments for registered education savings plans, registered disability savings plans and tax-free savings accounts.

On November 3, 2022, the Minister of Finance released revised proposals to amend the Tax Act (the “EIFEL Proposals”) that are intended, where applicable, to limit the deductibility of interest and other financing-related expenses by an entity to the extent that such expenses, net of interest and other financing-related income, exceed a fixed ratio of the entity’s tax EBITDA. The EIFEL Proposals and their application are highly complex, and there can be no assurances that the EIFEL Proposals, if enacted as proposed, will not have adverse consequences to H&R or its Unitholders. In particular, if these rules were to apply to restrict deductions otherwise available to H&R, the taxable component of distributions paid by H&R to Unitholders may be increased, which could reduce the after-tax return associated with an investment in Units. The EIFEL Proposals are proposed to be effective for taxation years beginning on or after October 1, 2023.

If H&R experiences a “loss restriction event”, as defined in the Tax Act (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 unused losses to future taxation years. 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 2021 and 2022, 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.

Under the Tax Cuts and Jobs Act of 2017 (“U.S. Tax Reform”), Section 163(j) of the Internal Revenue Code 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 \$50,000.00 (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, in general, 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 13,013,698 may be issued. Each Unit carries a single vote at any meeting of unitholders of the REIT. Each special voting unit carries a single vote at any meeting of unitholders of the REIT. As at December 31, 2022 and February 7, 2023, there were 265,884,526 Units issued and outstanding and 13,013,698 special voting units outstanding.

As at December 31, 2022, the maximum number of options to purchase Units authorized to be issued under H&R's Unit Option Plan was 17,723,110. Of this amount, 10,313,443 options to purchase Units have been granted and are outstanding and 7,409,667 options remain available for granting. As at February 7, 2023, there were 10,313,443 options to purchase Units outstanding and fully vested.

As at December 31, 2022, 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 1,932,770 incentive units which remain outstanding, 235,189 have been settled for Units and 2,832,041 incentive units remain available for granting. As at February 7, 2023, there were 1,947,418 incentive units outstanding. As at December 31, 2022 and February 7, 2023, there were 17,974,186 exchangeable units outstanding of which 13,013,698 exchangeable units are accompanied by special voting units.

ADDITIONAL INFORMATION

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

SUBSEQUENT EVENTS

- (a) In January 2023, the REIT sold a 50% interest in one office property and a 50% interest in one industrial property which were both classified as held for sale as at December 31, 2022, for aggregate gross proceeds of approximately \$19.0 million, at the REIT's proportionate share.
- (b) In January 2023, the REIT redeemed all of its \$250.0 million outstanding 3.416% Series O Senior Debentures.
- (c) In January 2023, the REIT repaid one industrial mortgage of approximately \$6.9 million, at the REIT's proportionate share, bearing interest at 3.2% per annum and was released from an additional \$6,900 of third party guarantees.
- (d) On February 9, 2023, 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 26,028,249 Units on the open market until the earlier of February 15, 2024 and the date on which the REIT has purchased the maximum number of Units permitted under the NCIB.

Consolidated financial statements of

H&R REAL ESTATE INVESTMENT TRUST

For the years ended December 31, 2022 and 2021



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INDEPENDENT AUDITOR'S 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, 2022 and December 31, 2021;
- the consolidated statements of comprehensive income 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, 2022 and December 31, 2021, 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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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, 2022.



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 \$8,799,317 thousand. The Entity also has equity accounted investments of \$1,060,268 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 \$5,265,278 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 "2022 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 "2022 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.



Auditor's 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 auditor's 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 auditor's 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 auditor's 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 auditor's 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 auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

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

Toronto, Canada
February 13, 2023

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H&R REAL ESTATE INVESTMENT TRUST

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

	<i>Note</i>	December 31 2022	December 31 2021
Assets			
Real estate assets:			
Investment properties	3	\$8,799,317	\$8,581,100
Properties under development	3	880,778	481,432
		9,680,095	9,062,532
Equity accounted investments	4	1,060,268	992,679
Assets classified as held for sale	5	294,028	—
Other assets	6	301,325	321,789
Cash and cash equivalents	7	76,887	124,141
		\$11,412,603	\$10,501,141
Liabilities and Unitholders' Equity			
Liabilities:			
Debt	8	\$3,922,529	\$3,894,906
Exchangeable units	9	217,668	216,841
Deferred revenue	10	986,243	896,801
Deferred tax liability	22	483,048	350,501
Accounts payable and accrued liabilities	11	309,505	368,259
Liabilities classified as held for sale	5	6,323	—
		5,925,316	5,727,308
Unitholders' equity		5,487,287	4,773,833
Commitments and contingencies	23		
Subsequent events	8(b), 8(d), 13(e), 23(b), 25		
		\$11,412,603	\$10,501,141

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

(In thousands of Canadian dollars)

Years ended December 31, 2022 and 2021

	Note	2022	2021
Rentals from investment properties	15	\$834,640	\$1,065,380
Property operating costs		(299,691)	(403,798)
Net operating income		534,949	661,582
Net income from equity accounted investments	4	47,139	125,649
Finance cost - operations	16	(220,262)	(236,878)
Finance income	16	14,793	17,229
Trust expenses		(22,121)	(27,936)
Fair value adjustment on financial instruments	16	38,349	43,859
Fair value adjustment on real estate assets	3	546,081	12,984
Gain on sale of real estate assets, net of related costs	3	7,332	6,957
Net income before income taxes		946,260	603,446
Income tax expense	22	(101,437)	(5,539)
Net income		844,823	597,907
Other comprehensive income (loss):			
Items that are or may be reclassified subsequently to net income	14	321,570	(23,575)
Total comprehensive income attributable to unitholders		\$1,166,393	\$574,332

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, 2022 and 2021

UNITHOLDERS' EQUITY	Note	Value of Units	Accumulated net income	Accumulated distributions	Accumulated other comprehensive income	Total
Unitholders' equity, January 1, 2021		\$5,391,766	\$5,273,792	(\$4,754,003)	\$159,836	\$6,071,391
Proceeds from issuance of Units		25,653	—	—	—	25,653
Net income		—	597,907	—	—	597,907
Distributions to unitholders		—	—	(227,312)	—	(227,312)
Primaris Spin-Off	13(d)	—	—	(1,670,231)	—	(1,670,231)
Other comprehensive loss	14	—	—	—	(23,575)	(23,575)
Unitholders' equity, December 31, 2021		5,417,419	5,871,699	(6,651,546)	136,261	4,773,833
Proceeds from issuance of Units		3,902	—	—	—	3,902
Net income		—	844,823	—	—	844,823
Distributions to unitholders		—	—	(159,785)	—	(159,785)
Units repurchased and cancelled	13(e)	(297,056)	—	—	—	(297,056)
Other comprehensive income	14	—	—	—	321,570	321,570
Unitholders' equity, December 31, 2022		\$5,124,265	\$6,716,522	(\$6,811,331)	\$457,831	\$5,487,287

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, 2022 and 2021

	Note	2022	2021
Cash provided by (used in):			
Operations:			
Net income		\$844,823	\$597,907
Finance cost - operations	16	220,262	236,878
Interest paid		(171,242)	(227,301)
Items not affecting cash:			
Rental income accrued from the Bow and 100 Wynford	10	(86,555)	(16,520)
Net income from equity accounted investments	4	(47,139)	(125,649)
Rent amortization of tenant inducements	15	4,691	4,557
Fair value adjustment on real estate assets	3	(546,081)	(12,984)
Gain on sale of real estate assets, net of related costs	3	(7,332)	(6,957)
Fair value adjustment on financial instruments	16	(38,349)	(38,190)
Unit-based compensation expense	13(b)	6,765	8,225
Deferred income tax expense	22	100,108	4,458
Change in other non-cash operating items	17	(24,897)	27,683
		255,054	452,107
Investing:			
Properties under development:			
Acquisitions	3	(90,845)	(251,495)
Additions	3, 17	(70,024)	(34,141)
Investment properties:			
Deferred revenue	10	118,608	904,377
Net proceeds on disposition of real estate assets		263,679	818,963
Acquisitions	3	(78,448)	(96,211)
Redevelopment, net of insurance proceeds	3	5,425	(74,577)
Capital expenditures	3	(35,582)	(47,089)
Leasing expenses and tenant inducements	3	(8,516)	(18,865)
Equity accounted investments, net		57,559	65,132
Mortgages receivable, net		32,732	231,523
Restricted cash	6	(17,909)	(1,803)
Proceeds from sale of Primaris REIT units	6	49,275	—
		225,954	1,495,814
Financing:			
Unsecured term loans	8	250,000	(186,629)
Lines of credit	8	—	(329,018)
Mortgages payable:			
New mortgages payable	8	—	359,184
Principal repayments	8	(301,132)	(1,464,350)
Redemption of debentures payable		—	(325,000)
Proceeds from issuance of debentures payable		—	298,622
Proceeds from issuance of Units		(331)	—
Units repurchased and cancelled	13(e)	(297,056)	—
Distributions paid to unitholders	17	(179,743)	(227,312)
Primaris Spin-Off	13(d), 17	—	(12,136)
		(528,262)	(1,886,639)
Increase (decrease) in cash and cash equivalents		(47,254)	61,282
Cash and cash equivalents, beginning of year	7	124,141	62,859
Cash and cash equivalents, end of year	7	\$76,887	\$124,141

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, 2022 and 2021

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 for the year ended December 31, 2021 and the REIT’s consolidated statements of cash flows 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 13, 2023.

(b) Functional currency and presentation

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

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

(c) Basis of measurement

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

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

H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

(d) Use of estimates and judgements

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

(i) Use of estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the fair value of real estate assets (note 3).

(ii) Use of Judgements

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

- Valuations of real estate assets

Real estate assets, which consist of investment properties and properties under development, are carried on the consolidated statements of financial position at fair value, as determined by either external independent appraisers or by the REIT's internal valuation team. The valuations are based on a number of methods and significant assumptions, such as capitalization rates, terminal capitalization rates, discount rates and estimates of future cash flows. Valuation of real estate assets is one of the principal estimates and uncertainties of these consolidated financial statements. Refer to note 3 for further information on estimates and significant assumptions made in the determination of the fair value of real estate assets. Judgement is applied in determining whether certain costs are additions to the carrying value of the real estate assets, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development properties.

- Leases

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

- Income taxes

The REIT is a mutual fund trust and a real estate investment trust pursuant to the *Income Tax Act* (Canada) ("Tax Act"). Under current tax legislation, the REIT is not liable to pay Canadian income tax provided that its taxable income is fully distributed to unitholders each year. The REIT is a real estate investment trust if it meets prescribed conditions under the Tax Act relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the REIT Conditions and has assessed its interpretation and application to the REIT's assets and revenue, and the REIT 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.

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, 2022 and 2021

- Business combinations

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

2. Significant accounting policies:

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

(a) Basis of consolidation:

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

(b) Investment properties:

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

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

Upon acquisition, investment properties are initially recorded at cost, 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.

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, 2022 and 2021

(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, properties under development are recorded at fair value based on available market evidence. The related gain or loss in fair value is recognized in net income in the year in which it arises.

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

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

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

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

Liabilities that are to be assumed by the buyer on disposition of the non-current asset, are also classified as held for sale. Non-current assets and non-current liabilities held for sale are classified separately from other assets and other liabilities in the consolidated 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 they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

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

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

H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

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 2022 and the 2021 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.

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

H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2022 and 2021

(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 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.

The REIT's interests in its associates and joint ventures (collectively, "Equity accounted investments") 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 in Equity accounted investments is recognized in net income from equity accounted investments in the consolidated statements of comprehensive income. The REIT's other comprehensive income (loss) includes its share of the Equity accounted investments' other comprehensive income (loss).

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 proportionate share of the underlying assets, liabilities, revenue and expenses in its financial results.

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, 2022 and 2021

(n) *Business combinations:*

The purchase method of accounting is used for acquisitions meeting the definition of a business under IFRS 3, as set out in note 1(d)(ii). 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 accounted for in accordance with IFRS 16, *Leases* and 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.

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.

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, 2022 and 2021

(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"):

- (i) It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- (ii) 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 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 line of credit is designated as a hedge of the REIT's investment in self-sustaining foreign operations.

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, 2022 and 2021

3. Real estate assets:

	Note	December 31, 2022		December 31, 2021	
		Investment Properties	Properties Under Development	Investment Properties	Properties Under Development
Opening balance, beginning of year		\$8,581,100	\$481,432	\$11,149,130	\$449,849
Acquisitions, including transaction costs		78,448	90,845	96,211	251,495
Dispositions		(256,292)	—	(654,282)	(630)
Primaris Spin-Off	13(d)	—	—	(2,403,350)	—
Operating capital:					
Capital expenditures		35,582	—	47,089	—
Leasing expenses and tenant inducements		8,516	—	18,865	—
Development capital:					
Redevelopment, net of insurance proceeds (including capitalized interest)		(5,425)	—	77,105	—
Additions to properties under development (including capitalized interest)		—	71,255	—	35,011
Amortization of tenant inducements and straight-lining of contractual rents		1,896	—	20,687	—
Transfer of properties under development that have reached substantial completion to investment properties		56,834	(56,834)	251,535	(251,535)
Transfer of investment properties to assets classified as held for sale	5	(294,028)	—	—	—
Change in right-of-use asset ⁽¹⁾	17	—	(1,023)	—	(977)
Fair value adjustment on real estate assets		283,705	262,376	5,881	7,103
Change in foreign exchange		308,981	32,727	(27,771)	(8,884)
Closing balance, end of year		\$8,799,317	\$880,778	\$8,581,100	\$481,432

⁽¹⁾ As at December 31, 2022, the right-of-use asset in a leasehold interest of U.S. \$22,360 (December 31, 2021 - U.S. \$23,112) was measured at an amount equal to the corresponding lease liability (note 11). The Canadian dollar equivalent of this amount is \$30,410 (December 31, 2021 - \$29,122).

Asset acquisitions:

During the year ended December 31, 2022, the REIT acquired:

- (a) one U.S. office property and a 50% interest in one Canadian industrial property (year ended December 31, 2021 - one Canadian industrial property); and
- (b) five U.S. residential properties under development (year ended December 31, 2021 - four U.S. residential properties under development).

The results of operations for acquisitions are included in the 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 2022	December 31 2021
Assets		
Investment properties	\$78,362	\$96,193
Properties under development	90,845	251,495
	\$169,207	\$347,688

During the year ended December 31, 2022, the REIT incurred additional costs of \$86 (year ended December 31, 2021 - \$18) in respect of prior year acquisitions which are not included in the above table.

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Asset dispositions:

During the year ended December 31, 2022, the REIT sold one U.S. residential property, 10 U.S. retail properties, a 50% interest in one Canadian industrial property, two Canadian office properties and two Canadian retail properties and recognized a gain on sale of real estate assets of \$7,332.

During the year ended December 31, 2021, the REIT sold one U.S. office property, one U.S. retail property, one U.S. office property under development, a 50% interest in 16 Canadian industrial properties and four Canadian office properties and recognized 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.

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, 2022, 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 appraisal and holds discussions with the external independent appraiser on the reasonableness of their assumptions. External independent appraisals received throughout the year represent 21.4% and 35.5% of the fair value of investment properties and properties under development, respectively, as at December 31, 2022 (year ended December 31, 2021 - 21.6% and nil, respectively).

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 adjusted accordingly.

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

	Capitalization Rates ⁽¹⁾			Discount Rates ⁽²⁾			Terminal Capitalization Rates ⁽¹⁾⁽²⁾		
	Canada	United States	Total	Canada	United States	Total	Canada	United States	Total
December 31, 2022	5.65%	5.23%	5.41%	6.58%	7.12%	6.73%	6.08%	6.70%	6.29%
December 31, 2021	5.63%	5.45%	5.54%	6.56%	6.70%	6.60%	5.99%	6.17%	6.05%

⁽¹⁾ Excludes the Bow and 100 Wynford (note 10).

⁽²⁾ Excludes the REIT's residential segment.

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Fair value sensitivity:

The REIT's investment properties are classified as level 3 under the fair value hierarchy (note 19(d)), 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, 2022:

Capitalization Rate Sensitivity Increase (Decrease)	Capitalization Rate	Fair Value of Investment Properties	Fair Value Variance	% Change
(0.75%)	4.66%	\$ 8,907,130	\$ 1,234,815	16.09%
(0.50%)	4.91%	\$ 8,453,610	\$ 781,295	10.18%
(0.25%)	5.16%	\$ 8,044,036	\$ 371,721	4.84%
December 31, 2022	5.41%	\$ 7,672,315 ⁽¹⁾	\$ —	—
0.25%	5.66%	\$ 7,333,432	\$ (338,883)	(4.42)%
0.50%	5.91%	\$ 7,023,219	\$ (649,096)	(8.46)%
0.75%	6.16%	\$ 6,738,186	\$ (934,129)	(12.18)%

⁽¹⁾ Excludes the Bow and 100 Wynford (note 10).

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: (i) 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; (ii) 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 (iii) 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 by including the REIT's proportionate share of the underlying assets, liabilities, revenue and expenses in its financial results. Joint ventures and investments in associates are accounted for using the equity method.

Description of Equity accounted investments	Location	Operating segment	Ownership interest	
			December 31 2022	December 31 2021
Investments in joint ventures: ⁽¹⁾				
Hercules Project	United States	Residential	31.7 %	31.7 %
Shoreline	United States	Residential	31.2 %	31.2 %
The Pearl	United States	Residential	—	33.3 %
Slate Drive	Canada	Industrial	50.0 %	50.0 %
One industrial property	United States	Industrial	50.5 %	50.5 %
Central Pointe	United States	Residential	50.0 %	— %
Investments in associates: ⁽²⁾				
Jackson Park	United States	Residential	50.0 %	50.0 %
ECHO Realty LP ("ECHO")	United States	Retail	33.7 %	33.7 %

⁽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.

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During the year ended December 31, 2022, the REIT: (i) disposed of The Pearl, a joint venture that held one residential property under development which was classified as held for sale as at December 31, 2021; (ii) transferred Shoreline and Hercules Project (Phase 2), each a joint venture, from properties under development to investment properties as they had reached substantial completion; and (iii) acquired Central Pointe, a joint venture that holds one residential property under development.

During the year ended December 31, 2021: (i) Hercules Project, a joint venture, disposed of one residential property (Phase I); and (ii) the REIT disposed of Esterra Park, a joint venture that held one residential property under development.

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, 2022				December 31, 2021			
	---Associates---		Joint Ventures ⁽¹⁾		---Associates---		Joint Ventures ⁽¹⁾	
	ECHO	Jackson Park		Total	ECHO	Jackson Park		Total
Investment properties ⁽²⁾	\$2,713,391	\$2,057,000	\$494,887	\$5,265,278	\$2,452,196	\$1,953,000	\$28,350	\$4,433,546
Properties under development	43,428	—	168,753	212,181	24,672	—	474,875	499,547
Assets classified as held for sale	—	—	—	—	—	—	119,784	119,784
Other assets	54,453	3,352	4,462	62,267	32,630	4,668	591	37,889
Cash and cash equivalents	22,797	12,598	53,876	89,271	19,888	23,267	47,758	90,913
Debt	(1,060,442)	(1,346,310)	(319,401)	(2,726,153)	(917,997)	(1,245,445)	(299,122)	(2,462,564)
Accounts payable and accrued liabilities	(30,208)	(16,344)	(11,821)	(58,373)	(41,780)	(15,942)	(16,823)	(74,545)
Lease liability ⁽²⁾	(105,606)	—	—	(105,606)	(92,173)	—	—	(92,173)
Non-controlling interest	(67,004)	—	—	(67,004)	(66,856)	—	—	(66,856)
Net assets	1,570,809	710,296	390,756	2,671,861	1,410,580	719,548	355,413	2,485,541
REIT's share of net assets	\$537,106	\$355,503	\$167,659	\$1,060,268	\$482,395	\$360,103	\$150,181	\$992,679

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

⁽²⁾ As at December 31, 2022, the total fair value of investment properties within equity accounted investments, net of the lease liability, was \$5,159,672 (December 31, 2021 - \$4,341,373).

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, 2022 and November 30, 2021, respectively.

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Net income from equity accounted investments in:	Year ended December 31, 2022				Year ended December 31, 2021			
	----Associates----		Joint Ventures ⁽¹⁾		----Associates----		Joint Ventures ⁽¹⁾	
	ECHO	Jackson Park		Total	ECHO	Jackson Park		Total
Rentals from investment properties	\$213,800	\$105,310	\$15,967	\$335,077	\$200,449	\$73,353	\$6,973	\$280,775
Property operating costs	(46,579)	(40,813)	(6,656)	(94,048)	(43,219)	(39,081)	(2,343)	(84,643)
Net income from equity accounted investments	3,361	—	—	3,361	279	—	—	279
Finance income (loss)	200	—	41	241	(126)	—	3	(123)
Finance cost - operations	(44,347)	(44,768)	(8,618)	(97,733)	(42,292)	(43,046)	(3,948)	(89,286)
Trust expenses	(9,572)	—	(35)	(9,607)	(12,234)	—	(59)	(12,293)
Fair value adjustment on financial instruments	8,638	—	—	8,638	3,807	—	—	3,807
Fair value adjustment on real estate assets	(26,306)	(41,412)	9,160	(58,558)	(17,217)	107,229	24,000	114,012
Gain (loss) on sale of real estate assets	1,594	—	52,680	54,274	(179)	—	70,252	70,073
Income tax expense	(168)	(20)	(258)	(446)	(199)	(1)	(72)	(272)
Net income (loss)	100,621	(21,703)	62,281	141,199	89,069	98,454	94,806	282,329
Net income attributable to non-controlling interest	(2,871)	—	—	(2,871)	(2,677)	—	—	(2,677)
Net income (loss) attributable to owners	97,750	(21,703)	62,281	138,328	86,392	98,454	94,806	279,652
REIT's share of net income (loss) attributable to unitholders	\$32,931	(\$10,851)	\$25,059	\$47,139	\$29,096	\$49,227	\$47,326	\$125,649

⁽¹⁾ See the table "Description of equity accounted investments" for the composition of the REIT's 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, 2021 to November 30, 2022 and December 1, 2020 to November 30, 2021, respectively.

5. Assets and liabilities classified as held for sale:

As at December 31, 2022, the REIT had one office property, a 50% interest in one office property and a 50% interest in one industrial property (December 31, 2021 - no properties) classified as held for sale.

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

	December 31 2022	December 31 2021
Assets		
Investment properties	\$294,028	\$—
Liabilities		
Mortgage payable	\$6,323	\$—

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6. Other assets:

	<i>Note</i>	December 31 2022	December 31 2021
Mortgages receivable ⁽¹⁾		\$169,190	\$191,008
Prepaid expenses and sundry assets		61,212	60,005
Exchangeable units of Primaris REIT ⁽²⁾	9	—	55,111
Accounts receivable - net of provision for expected credit loss of \$4,946 (2021 - \$2,885)		5,318	6,130
Restricted cash ⁽³⁾		27,444	9,535
Derivative instruments	12	38,161	—
		\$301,325	\$321,789

	December 31 2022	December 31 2021
Current	\$194,538	\$265,861
Non-current	106,787	55,928
	\$301,325	\$321,789

⁽¹⁾ Mortgages receivable include \$53,355 classified as FVTPL and \$115,835 classified as amortized cost (December 31, 2021 - \$69,525 and \$121,483, respectively). As at December 31, 2022, mortgages receivable bear interest at effective rates between 2.50% and 14.32% per annum (December 31, 2021 - between 2.50% and 14.32% per annum) with a weighted average effective rate of 8.18% per annum (December 31, 2021 - 9.03%), and mature between 2023 and 2029 (December 31, 2021 - mature between 2022 and 2029).

⁽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. During the year ended December 31, 2022, the REIT sold all of its Primaris REIT units for gross proceeds of \$49,275 and recognized a loss on sale of \$5,836.

⁽³⁾ Included in restricted cash as at December 31, 2022 was approximately \$18,900 of proceeds, from the sale of three U.S. properties, held in escrow for property exchanges under Section 1031 of the U.S. Internal Revenue Code (December 31, 2021 - nil).

Future repayments of mortgages receivable are as follows:

	December 31 2022
Years ending December 31:	
2023	\$100,564
2024	17,986
2025	—
2026	15,271
2027	—
Thereafter	35,369
	\$169,190

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7. Cash and cash equivalents:

Cash and cash equivalents at December 31, 2022 included cash on hand of \$76,887 (December 31, 2021 - \$124,141).

Included in cash and cash equivalents at December 31, 2022 were U.S. dollar denominated amounts of U.S. \$37,043 (December 31, 2021 - U.S. \$33,287). The Canadian dollar equivalent of these amounts is \$50,378 (December 31, 2021 - \$41,942).

8. Debt:

The REIT's debt consists of the following items:

	Note	December 31 2022	December 31 2021
Mortgages payable	8(a)	\$1,613,361	\$1,837,281
Debentures payable	8(b)	1,546,668	1,545,125
Unsecured term loans	8(c)	750,000	500,000
Lines of credit	8(d)	12,500	12,500
		\$3,922,529	\$3,894,906

The following is a summary of the changes in debt:

	Note	Mortgages Payable	Debentures Payable	Unsecured Term Loans	Lines of Credit	Total
Opening balance, beginning of year		\$1,837,281	\$1,545,125	\$500,000	\$12,500	\$3,894,906
Scheduled amortization payments		(41,621)	—	—	—	(41,621)
Debt repayments		(259,511)	—	—	—	(259,511)
New debt		—	—	250,000	—	250,000
Transfer of debt to liabilities classified as held for sale	5	(6,323)	—	—	—	(6,323)
Effective interest rate accretion		2,937	1,543	—	—	4,480
Change in foreign exchange		80,598	—	—	—	80,598
Closing balance, end of year		\$1,613,361	\$1,546,668	\$750,000	\$12,500	\$3,922,529

(a) Mortgages payable:

The mortgages payable are secured by 51 real estate assets with an aggregate fair value of \$3,863,654 (December 31, 2021 - 76 real estate assets with an aggregate fair value of \$3,869,739), bearing interest at fixed rates with a contractual weighted average rate of 3.99% (December 31, 2021 - 4.00%) per annum and maturing between 2023 and 2032 (December 31, 2021 - maturing between 2022 and 2032). Included in mortgages payable at December 31, 2022 were U.S. dollar denominated mortgages of U.S. \$797,556 (December 31, 2021 - U.S. \$841,202). The Canadian dollar equivalent of these amounts is \$1,084,676 (December 31, 2021 - \$1,059,914).

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.

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Future principal mortgage payments are as follows:

	December 31
	2022
Years ending December 31:	
2023	\$187,826
2024	78,680
2025	145,351
2026	86,093
2027	447,267
Thereafter	676,434
	1,621,651
Financing costs and mark-to-market adjustment arising on acquisitions	(8,290)
	\$1,613,361

(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	December 31
				2022	2021
	Maturity	Contractual interest rate	Effective interest rate	Principal amount	Carrying value
Senior Debentures					
Series O Senior Debentures	January 23, 2023 ⁽¹⁾	3.42%	3.44%	\$250,000	\$249,980
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	349,548
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	398,892
Series R Senior Debentures	June 2, 2026	2.91%	3.00%	250,000	249,229
Series S Senior Debentures	February 19, 2027	2.63%	2.72%	300,000	299,019
		3.34%	3.43%	\$1,550,000	\$1,546,668
					\$1,545,125

⁽¹⁾ In January 2023, the REIT redeemed all of its \$250,000 outstanding 3.416% Series O Senior Debentures.

The Series O, N, Q, R and S unsecured senior debentures (collectively, the "Senior Debentures") pay interest semi-annually.

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 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.

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(c) Unsecured term loans:

The REIT has the following unsecured term loans:

	Maturity Date	December 31 2022	December 31 2021
H&R REIT unsecured term loan #1 ⁽¹⁾	March 7, 2024	\$250,000	\$250,000
H&R REIT unsecured term loan #2 ⁽²⁾	January 6, 2026	250,000	250,000
H&R REIT unsecured term loan #3 ⁽³⁾	November 30, 2024	125,000	—
H&R REIT unsecured term loan #4 ⁽⁴⁾	November 30, 2025	125,000	—
		\$750,000	\$500,000

⁽¹⁾ The REIT entered into an interest rate swap to fix the interest rate at 3.17% per annum. The swap matures on May 7, 2030 (note 12).

⁽²⁾ The REIT entered into an interest rate swap to fix the interest rate at 4.16% per annum. The swap matures on January 6, 2026 (note 12).

⁽³⁾ The REIT entered into an interest rate swap to fix the interest rate at 5.29% per annum. The swap matures on September 29, 2027 (note 12).

⁽⁴⁾ The REIT entered into an interest rate swap to fix the interest rate at 5.19% per annum. The swap matures on September 29, 2027 (note 12).

(d) Lines of credit:

The REIT has the following lines of credit:

	Maturity Date	Total Facility	Amount Drawn	Outstanding Letters of Credit	Available Balance
Revolving unsecured operating lines of credit:					
H&R REIT revolving unsecured line of credit	September 20, 2023	\$150,000	\$—	\$—	\$150,000
H&R REIT revolving unsecured line of credit	December 14, 2026	750,000	—	(1,955)	748,045
H&R REIT revolving unsecured letter of credit facility		60,000	—	(40,088)	19,912
Sub-total		960,000	—	(42,043)	917,957
Revolving secured operating lines of credit⁽¹⁾:					
H&R REIT and CrestPSP revolving secured line of credit	February 28, 2023 ⁽²⁾	25,000	(12,500)	(105)	12,395
December 31, 2022		\$985,000	(\$12,500)	(\$42,148)	\$930,352
December 31, 2021		\$985,000	(\$12,500)	(\$20,057)	\$952,443

⁽¹⁾ Secured by certain investment properties.

⁽²⁾ In February 2023, the revolving secured line of credit agreement was amended to extend the maturity date from January 31, 2023 to February 28, 2023.

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 as at December 31, 2022 are U.S. dollar denominated amounts of nil (December 31, 2021 - nil).

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9. Exchangeable units:

As at December 31, 2021, certain of the REIT's subsidiaries had in aggregate 13,344,071 exchangeable units outstanding which are puttable instruments where, upon redemption, the REIT had a contractual obligation to issue Units and Primaris REIT units. Holders of all exchangeable units were 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 was \$16.25 per Unit, which reflected 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 the 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 REIT's special voting units would reflect the number of votes associated with the Units deliverable upon exchange. Subsequent to the exercise of the gross-up option, and the subdivision of the exchangeable units and special voting units, to result in a one-for-one exchange ratio for ease of administration on March 21, 2022, there were 18,279,546 exchangeable units outstanding, including 13,013,698 special voting units. The subdivision did not result in any additional entitlements to holders of exchangeable units.

As at December 31, 2022, certain of the REIT's subsidiaries had in aggregate 17,974,186 exchangeable units outstanding which are puttable instruments where, upon redemption, the REIT has a contractual obligation to issue 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 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, 2022 was \$12.11 per Unit.

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

	Note	December 31, 2022	December 31, 2021		
		Total	H&R REIT	Primaris REIT	Total
Exchangeable into units of:					
Carrying value, beginning of year		\$216,841	\$197,796	\$—	\$197,796
Exchanged for Units		(4,064)	(25,264)	—	(25,264)
Exchangeable into Primaris REIT units	6	—	—	55,111	55,111
(Gain) loss on fair value of exchangeable units		4,891	(10,802)	—	(10,802)
Carrying value, end of year		\$217,668	\$161,730	\$55,111	\$216,841

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

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10. Deferred revenue:

a) Bow deferred revenue

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

In October 2021, the REIT sold its interest in the Bow property (the “Bow”) 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 Bow. Although the REIT sold the Bow, 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 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 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).

ii) 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 deferred revenue (classified as a liability) and will be amortized over the remaining term of the Ovintiv 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.

b) 100 Wynford deferred revenue

On August 31, 2022, the REIT sold its interest in 100 Wynford Drive, an office property in Toronto, ON (“100 Wynford”) to an arm’s length third party, Blue Owl Capital, formerly Oak Street (“Blue Owl”) for approximately \$120,800. Although the REIT sold 100 Wynford, 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 100 Wynford for approximately \$159,700 in 2036 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 Bell lease (“Bell lease”) bringing the value of the real estate asset to nil by the lease maturity in April 2036. The net proceeds received by the REIT on disposition were \$118,608. These proceeds were recorded as deferred revenue (classified as a liability) and will be amortized over the remaining term of the Bell lease and will consist of principal and interest.

The following is a summary of the Bow and 100 Wynford in the consolidated statement of financial position:

	December 31, 2022			December 31 2021
	The Bow	100 Wynford	Total	
Income producing property - fair value ⁽¹⁾	\$1,010,635	\$116,367	\$1,127,002	\$1,174,518
Deferred revenue - net of amortization of \$36,742 (2021 - \$7,576)	870,059	116,184	986,243	896,801

⁽¹⁾ The fair value of the income producing properties will be reduced as the remaining financial benefit from these income producing properties diminishes over the term of their respective leases.

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The following is a summary of the financial results for the Bow and 100 Wynford included in the consolidated statements of comprehensive income:

	Year ended December 31			2021
	The Bow	100 Wynford	2022	
Rental income earned	\$14,841	\$5,560	\$20,401	\$89,442
Rental income earned - non-cash	83,741	2,814	86,555	16,520
Straight-lining of contractual rent	—	265	265	1,908
Revenue reimbursement for property operating costs	45,975	1,764	47,739	44,044
Property operating costs	(45,998)	(1,866)	(47,864)	(44,027)
Net operating income	98,559	8,537	107,096	107,887
Finance cost - operations	—	—	—	(20,198)
Finance income	—	—	—	65
Accretion finance expense on deferred revenue - non-cash	(56,999)	(390)	(57,389)	(8,944)
Fair value adjustment on real estate assets - non-cash	(18,526)	(18,903)	(37,429)	57,464
Net income (loss)	\$23,034	(\$10,756)	\$12,278	\$136,274

11. Accounts payable and accrued liabilities:

	Note	December 31 2022	December 31 2021
Current:			
Other accounts payable and accrued liabilities		\$181,527	\$215,168
Distributions payable to unitholders		25,471	45,429
Distributions payable to exchangeable unitholders		1,722	2,102
Debt interest payable		16,480	20,106
Prepaid rent		22,033	22,181
Unit-based compensation payable:			
Options	13(b)	5,592	4,435
Incentive units	13(b)	3,359	2,962
Non-current:			
Derivative instruments	12	302	11,217
Lease liability ⁽¹⁾		30,410	29,122
Security deposits		10,660	7,914
Unit-based compensation payable:			
Incentive units	13(b)	11,949	7,623
		\$309,505	\$368,259

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

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12. Derivative instruments:

	Maturity	Fair value asset (liability)*		Net unrealized gain (loss) on derivative instruments	
		December 31	December 31	Years ended December 31	
		2022	2021	2022	2021
Term loan interest rate swap ⁽¹⁾	March 17, 2021	\$—	\$—	\$—	\$469
Term loan interest rate swap ⁽²⁾	May 7, 2030	26,875	(4,157)	31,032	16,640
Term loan interest rate swap ⁽³⁾	January 6, 2026	11,286	(7,060)	18,346	13,963
Term loan interest rate swap ⁽⁴⁾	September 29, 2027	(302)	—	(302)	—
Incentive units swaps ⁽⁵⁾	2021	—	—	—	(3,194)
		\$37,859	(\$11,217)	\$49,076	\$27,878

The REIT entered into swaps as follows:

- (1) To fix the interest rate at 2.56% per annum for the U.S. \$130,000 term loan, which settled in March 2021.
- (2) To fix the interest rate at 3.17% per annum for the \$250,000 term loan.
- (3) To fix the interest rate at 4.16% per annum for the \$250,000 term loan.
- (4) To fix the interest rate at: (i) 5.29% per annum for the \$125,000 term loan; and (ii) 5.19% per annum for the \$125,000 term loan.
- (5) To fix the payout on incentive units, which were settled in December 2021. The REIT realized a gain on settlement of \$5,669.

* 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).

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, subsequent to the exercise of the gross-up option on January 4, 2022 (note 9) and the subdivision on March 21, 2022 (note 9), the aggregate number of special voting units which the REIT may issue is 13,013,698 (December 31, 2021 - 9,500,000). Units carry the right to participate pro rata in any distributions. As at December 31, 2022, there were 13,013,698 (December 31, 2021 - 9,500,000) special voting units issued and outstanding.

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

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

Unitholders have the right to require the REIT to redeem their Units on demand. Upon the tender of their Units for redemption, all of the unitholder's rights to and under such Units are surrendered and the unitholder is entitled to receive a price per Unit as determined by the Declaration of Trust.

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

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

	December 31 2022	December 31 2021
Balance, beginning of year	288,439,847	286,863,083
Issuance of Units:		
Incentive units settled in Units	13,119	37,771
Exchangeable units exchanged into Units	305,360	1,538,993
Units repurchased and cancelled	(22,873,800)	—
Balance, end of year	265,884,526	288,439,847

The weighted average number of basic Units for the year ended December 31, 2022 is 272,671,167 (December 31, 2021 - 287,659,788).

(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 audited financial statements as at and for the year ended December 31, 2021.

(i) Unit option plan:

As at December 31, 2022, a maximum of 17,723,110 (December 31, 2021 - 17,723,110) options to purchase Units were authorized to be issued; 10,313,443 (December 31, 2021 - 11,660,809) options have been granted and are outstanding and 7,409,667 (December 31, 2021 - 6,062,301) 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, 2022		December 31, 2021	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	11,660,809	\$14.89	10,543,362	\$20.55
Cancelled re Primaris Spin-Off*	—	—	(9,063,815)	20.49
Granted re Primaris Spin-Off*	—	—	12,416,164	14.96
Expired	(1,347,366)	16.93	(2,234,902)	19.30
Outstanding and vested, end of year	10,313,443	\$14.62	11,660,809	\$14.89

* 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, 2022 are exercisable at varying prices ranging from \$13.86 to \$16.84 (December 31, 2021 - \$13.86 to \$16.93) with a weighted average remaining life of 2.5 years (December 31, 2021 - 3.1 years).

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(ii) Incentive unit plan:

As at December 31, 2022, a maximum of 5,000,000 (December 31, 2021 - 5,000,000) incentive units exchangeable into Units were authorized to be issued. The REIT has granted 1,932,770 (December 31, 2021 - 1,593,778) incentive units which remain outstanding, 235,189 (December 31, 2021 - 222,070) incentive units have been settled for Units and 2,832,041 (December 31, 2021 - 3,184,152) 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, 2022, 69.89% of the restricted units granted vest on the third anniversary and 30.11% 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 2022, the grant of performance units awarded in 2019 vested at 0% of target and in February 2021, the grant of performance units awarded in 2018 vested at 0% of target.

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

	December 31 2022	December 31 2021
	Incentive units	Incentive units
Outstanding, beginning of year	1,593,778	1,093,375
Granted	595,641	616,473
Cancelled re Primaris Spin-Off*	—	(212,089)
Granted re Primaris Spin-Off*	—	430,295
Expired	(81,321)	(75,435)
Settled	(175,328)	(258,841)
Outstanding, end of year	1,932,770	1,593,778

* 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 2022	December 31 2021
Options	\$5,592	\$4,435
Incentive units	15,308	10,585
	\$20,900	\$15,020

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

	2022	2021
Options	(\$1,157)	(\$3,646)
Incentive units	(5,608)	(4,579)
	(\$6,765)	(\$8,225)

(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, 2022, the REIT declared distributions per Unit of \$0.94 (December 31, 2021- \$1.42) comprised of (i) monthly cash distributions in aggregate of \$0.54 per Unit (December 31, 2021 - \$0.69 per Unit); (ii) a special cash distribution of \$0.05 per Unit (December 31, 2021 - \$0.10 per Unit); and (iii) a special distribution in Units of \$0.35 per Unit (December 31, 2021 - \$0.63 per Unit), which were immediately consolidated such that there was no change in the number of outstanding Units.

(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:

	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

(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") which allowed the REIT to purchase for cancellation up to a maximum of 14,000,000 Units. On April 19, 2022, the REIT received approval from the TSX to increase the maximum number of Units allowed to be repurchased on the open market to 28,269,228 Units until December 15, 2022.

During the year ended December 31, 2022, the REIT purchased and cancelled 22,873,800 Units at a weighted average price of \$12.99 per Unit, for a total cost of \$297,056. During the year ended December 31, 2021, the REIT did not purchase any Units for cancellation.

On February 9, 2023, 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 26,028,249 Units on the open market until the earlier of February 15, 2024 and the date on which the REIT has purchased the maximum number of Units permitted under the NCIB.

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14. Accumulated other comprehensive income:

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

	December 31, 2022			December 31
	Cash flow hedges	Foreign operations	Total	2021
Opening balance, beginning of year	(\$163)	\$136,424	\$136,261	\$159,836
Transfer of realized loss on cash flow hedges to net income	29	—	29	30
Unrealized gain (loss) on translation of U.S. denominated foreign operations	—	321,541	321,541	(28,305)
Net gain on hedges of net investments in foreign operations	—	—	—	4,700
	29	321,541	321,570	(23,575)
Closing balance, end of year	(\$134)	\$457,965	\$457,831	\$136,261

15. Rentals from investment properties:

	2022	2021
Rental income	\$674,487	\$848,177
Revenue from services	158,332	198,179
Straight-lining of contractual rent	6,512	23,581
Rent amortization of tenant inducements	(4,691)	(4,557)
	\$834,640	\$1,065,380

Operating leases:

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

	2022	2021
Less than 1 year	\$496,086	\$497,356
Between 1 and 5 years	1,428,819	1,536,487
More than 5 years	2,091,932	2,555,503
	\$4,016,837	\$4,589,346

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16. Finance costs:

	Note	2022	2021
Finance cost - operations			
Contractual interest on mortgages payable		(\$67,506)	(\$124,203)
Contractual interest on debentures payable		(51,780)	(62,244)
Contractual interest on unsecured term loans		(18,969)	(18,553)
Bank interest and charges on lines of credit		(10,950)	(7,363)
Effective interest rate accretion		(4,207)	(7,881)
Accretion finance expense on deferred revenue	10	(57,389)	(8,944)
Exchangeable unit distributions		(10,692)	(11,088)
		(221,493)	(240,276)
Capitalized interest ⁽¹⁾		1,231	3,398
		(220,262)	(236,878)
Finance income		14,793	17,229
Fair value adjustment on financial instruments		38,349	43,859
		(\$167,120)	(\$175,790)

⁽¹⁾ The weighted average rate of borrowings for the capitalized interest was 5.24% (December 31, 2021 - 3.50%).

17. Supplemental cash flow information:

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

	2022	2021
Accrued rents receivable	(\$6,587)	(\$25,244)
Prepaid expenses and sundry assets	6,029	(3,674)
Accounts receivable	812	6,185
Accounts payable and accrued liabilities	(25,151)	50,416
	(\$24,897)	\$27,683

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

	Note	2022	2021
Non-cash items:			
Non-cash adjustment to proceeds from issuance of Units		\$169	\$389
Non-cash assumption of mortgage payable on disposition of investment property		—	(96,735)
Exchangeable units exchanged for Units	9	4,064	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	1,023	977
Change in distributions payable to unitholders	11	19,958	—
Change in debt interest payable included in finance cost - operations	11	3,626	1,746
Change in distributions payable to exchangeable unit holders included in finance cost - operations	11	380	—
Capitalized interest on redevelopment	16	—	(2,528)
Capitalized interest on properties under development	16	(1,231)	(870)

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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 2022	December 31 2021
Debt	\$3,922,529	\$3,894,906
Exchangeable units	217,668	216,841
Unitholders' equity	5,487,287	4,773,833
	\$9,627,484	\$8,885,580

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, 2022, this ratio was 34.4% (December 31, 2021 - 37.1%). 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 and for the years ended December 31, 2022 and December 31, 2021.

19. Risk management:

- (a) Credit risk:

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

The REIT is exposed to credit risk as an owner of investment properties in that tenants may become unable to pay the contracted rent. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on significant tenants. Management has diversified the REIT's holdings so that it owns several categories of properties and acquires investment properties throughout Canada and the United States.

In addition, management ensures that no tenant or related group of tenants, other than investment grade tenants, account for a significant portion of the REIT's cash flow. The REIT has two tenants which individually account for more than 5% of the rentals from investment properties of the REIT: Hess Corporation and New York City Department of Health. Each of these entities has a public debt rating, by a recognized rating agency, of at least BBB- Stable.

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

	<i>Note</i>	December 31 2022	December 31 2021
Mortgages receivable	6	\$169,190	\$191,008
Accounts receivable	6	5,318	6,130
		\$174,508	\$197,138

(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 COVID-19 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, 2022, the consolidated amount available under its lines of credit was \$930,352 (note 8(d));
- Maintaining a large unencumbered asset pool. As at December 31, 2022, there were 123 unencumbered properties with a fair value of \$4,852,067; 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:

	<i>Note</i>	2023	Thereafter	Total
Debt ⁽¹⁾	8	\$450,326	\$3,483,825	\$3,934,151
Accounts payable and accrued liabilities ⁽²⁾	11	250,592	53,321	303,913
		\$700,918	\$3,537,146	\$4,238,064

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

⁽²⁾ Excludes options payable.

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(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 U.S. properties are also denominated in U.S. dollars to act as a natural hedge.

A \$0.10 weakening of the U.S. dollar against the average Canadian dollar exchange rate of \$1.30 for the year ended December 31, 2022 (December 31, 2021 - \$1.25), as well as the Canadian dollar exchange rate as at December 31, 2022 of \$1.36 (December 31, 2021 - \$1.26), would have decreased net income by approximately \$33,700 (December 31, 2021 - decrease by \$6,300) and decreased other comprehensive income by approximately \$193,000 (December 31, 2021 - decrease by \$168,000). Conversely, a \$0.10 strengthening of the U.S. dollar against the Canadian dollar would have had an equal but opposite effect. This analysis assumes that all other variables, in particular interest rates, remain constant.

(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, 2022, the percentage of fixed rate debt to total debt was 99.5% (December 31, 2021 - 99.7%). 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, 2022, lines of credit of \$12,500 and mortgages payable of \$6,470 (December 31, 2021 - \$12,500 and nil, respectively) are subject to variable interest rates. An increase in interest rates of 100 basis points for the year ended December 31, 2022 would have decreased net income by approximately \$160 (December 31, 2021 - decrease by \$100). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

As at December 31, 2022, there were no debentures payable or term loans subject to variable interest rates (December 31, 2021 - nil).

(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.

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, 2022 and 2021

(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).

December 31, 2022	Note	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets measured at fair value						
Investment properties	3	\$—	\$—	\$8,799,317	\$8,799,317	\$8,799,317
Properties under development	3	—	—	880,778	880,778	880,778
Assets classified as held for sale	5	—	—	294,028	294,028	294,028
Mortgages receivable	6	—	—	53,355	53,355	53,355
Derivative instruments	6	—	38,161	—	38,161	38,161
Assets for which fair values are disclosed						
Mortgages receivable	6	—	—	113,836	113,836	115,835
		—	38,161	10,141,314	10,179,475	10,181,474
Liabilities measured at fair value						
Exchangeable units	9	(217,668)	—	—	(217,668)	(217,668)
Derivative instruments	11	—	(302)	—	(302)	(302)
Liabilities classified as held for sale	5	—	—	(6,323)	(6,323)	(6,323)
Liabilities for which fair values are disclosed						
Mortgages payable	8(a)	—	(1,508,507)	—	(1,508,507)	(1,613,361)
Debentures payable	8(b)	—	(1,479,743)	—	(1,479,743)	(1,546,668)
Unsecured term loans	8(c)	—	(719,547)	—	(719,547)	(750,000)
Lines of credit	8(d)	—	(12,562)	—	(12,562)	(12,500)
		(217,668)	(3,720,661)	(6,323)	(3,944,652)	(4,146,822)
		(\$217,668)	(\$3,682,500)	\$10,134,991	\$6,234,823	\$6,034,652

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, 2022 and 2021

December 31, 2021	Note	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets measured at fair value						
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
Assets for which fair values are disclosed						
Mortgages receivable	6	—	—	120,943	120,943	121,483
		—	—	9,253,000	9,253,000	9,253,540
Liabilities measured at fair value						
Exchangeable units	9	(216,841)	—	—	(216,841)	(216,841)
Derivative instruments	11	—	(11,217)	—	(11,217)	(11,217)
Liabilities for which fair values are disclosed						
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)	(\$4,041,961)	\$9,253,000	\$4,994,198	\$5,130,576

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.

	2022	2021
Salaries and short-term employee benefits	(\$8,126)	(\$6,322)
Unit-based compensation	(5,512)	(6,956)
	(\$13,638)	(\$13,278)

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, 2022 and 2021

21. Segment disclosures:

The REIT has four reportable operating segments (Residential, Industrial, Office and Retail), 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 net 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.

(a) Operating segments:

Real estate assets by reportable segment as at December 31, 2022 and December 31, 2021 are as follows:

December 31, 2022	Residential	Industrial	Office	Retail	Total
Number of investment properties	24	74	27	281	406
Real estate assets:					
Investment properties	\$3,877,344	\$1,490,939	\$4,134,997	\$1,718,371	\$11,221,651
Properties under development	582,873	364,057	9,129	14,631	970,690
	4,460,217	1,854,996	4,144,126	1,733,002	12,192,341
Less: assets classified as held for sale	—	(2,188)	(291,840)	—	(294,028)
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	(1,240,840)	(40,428)	—	(936,950)	(2,218,218)
	\$3,219,377	\$1,812,380	\$3,852,286	\$796,052	\$9,680,095

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

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, 2022 and 2021

Net operating income by reportable segment for the years ended December 31, 2022 and December 31, 2021 is as follows:

	Residential	Industrial	Office	Retail	Sub-total	Less: Equity Accounted Investments	Year ended December 31, 2022
Rentals from investment properties	\$252,151	\$84,593	\$488,940	\$139,268	\$964,952	(\$130,312)	\$834,640
Property operating costs	(111,863)	(20,856)	(167,705)	(37,497)	(337,921)	38,230	(299,691)
Net operating income	\$140,288	\$63,737	\$321,235	\$101,771	\$627,031	(\$92,082)	\$534,949

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

(b) 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 2022	December 31 2021
Real estate assets:		
Canada	\$5,113,057	\$4,919,056
United States	7,079,284	6,190,581
	12,192,341	11,109,637
Less: Assets classified as held for sale	(294,028)	—
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	(2,218,218)	(1,989,796)
Less: REIT's proportionate share of assets classified as held for sale relating to equity accounted investments	—	(57,309)
	\$9,680,095	\$9,062,532

	2022	2021
Rentals from investment properties:		
Canada	\$493,423	\$767,354
United States	471,529	405,016
	964,952	1,172,370
Less: REIT's proportionate share of rentals relating to equity accounted investments	(130,312)	(106,990)
	\$834,640	\$1,065,380

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, 2022 and 2021

22. Income tax expense:

	2022	2021
Income tax computed at the Canadian statutory rate of nil applicable to the REIT for 2022 and 2021	\$—	\$—
Current U.S. income tax expense	(1,329)	(1,081)
Deferred income tax expense applicable to U.S. Holdco	(100,108)	(4,458)
Income tax expense in the determination of net income	(\$101,437)	(\$5,539)

The Tax Act contains provisions (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% (December 31, 2021 - 23.8%). 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 2022	December 31 2021
Deferred tax assets:		
Net operating losses	\$84,420	\$76,655
Accounts payable and accrued liabilities	1,386	902
	85,806	77,557
Deferred tax liabilities:		
Investment properties	427,149	301,063
Equity accounted investments	141,705	126,995
	568,854	428,058
Deferred tax liability	(\$483,048)	(\$350,501)

The change in deferred tax liability is the result of deferred income tax expense of \$100,108 (2021 - expense of \$4,458) and a foreign currency translation loss of \$(32,439) (2021 - gain of \$2,712) recognized in other comprehensive income (loss).

As at December 31, 2022, U.S. Holdco had accumulated net operating losses available for carryforward for U.S. income tax purposes of \$355,421 (December 31, 2021 - \$322,730). \$31,774 of the net operating losses will expire between 2031 and 2032 (December 31, 2021 - \$37,389 expiring 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:

- 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, 2022, the REIT has outstanding letters of credit totalling \$42,148 (December 31, 2021 - \$20,057), including \$20,680 (December 31, 2021 - \$1,890) which has been pledged as security for certain mortgages payable. The letters of credit may be secured by certain investment properties.
- The REIT provides guarantees on behalf of third parties, including co-owners. As at December 31, 2022, the REIT issued guarantees amounting to \$89,122, which expire in 2023 (December 31, 2021 - \$121,697, which expire between 2022 and 2023), relating to the co-owner’s share of mortgage liability. In January 2023, the REIT was released from \$6,900 of these guarantees.

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, 2022 and 2021

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, 2022, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, was \$215,680, which expire between 2024 and 2030 (December 31, 2021 - \$580,000 (note 13(d), which expire between 2022 and 2030).

In addition, the REIT continues to provide guarantees on behalf of the co-owners of certain of Primaris REIT's properties. As at December 31, 2022, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, was \$91,319, which expire between 2024 and 2027 (December 31, 2021 - \$111,120, which expire between 2022 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 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 2022	December 31 2021
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%

25. Subsequent events:

- (a) In January 2023, the REIT sold a 50% interest in one office property and a 50% interest in one industrial property which were both classified as held for sale as at December 31, 2022, for aggregate gross proceeds of approximately \$19,000, at the REIT's proportionate share.
- (b) In January 2023, the REIT redeemed all of its \$250,000 outstanding 3.416% Series O Senior Debentures.
- (c) In January 2023, the REIT repaid one industrial mortgage of approximately \$6,900, at the REIT's proportionate share, bearing interest at 3.24% per annum and was released from an additional \$6,900 of third party guarantees (note 23(b)).
- (d) On February 9, 2023, 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 26,028,249 Units on the open market until the earlier of February 15, 2024 and the date on which the REIT has purchased the maximum number of Units permitted under the NCIB.

BOARD OF TRUSTEES

STRONG AND SKILLFUL BOARD WITH UNITHOLDER ALIGNMENT

BOARD MEMBER

THOMAS J. HOFSTEDTER⁽¹⁾

Executive Chairman & Chief Executive Officer, H&R REIT

MARK COWIE⁽¹⁾

Principal, Cowie Capital Partners

JENNIFER A. CHASSON⁽²⁾

Founder & President, Springbank Capital Corporation

MARVIN RUBNER^(1,2)

Manager & Founder, YAD Investments Limited

STEPHEN GROSS^(1,3)

Principal, Initial Corporation

BRENNNA HAYSOM⁽³⁾

Chief Executive Officer, Rally Labs

JULIE MORROW

Partner, Goodmans LLP

RONALD RUTMAN^(2,3)

Partner, Zeifman & Company, Chartered Accountants

Majority Independent Board | 10-Year Term Limit | 37.5% Women | 9% Ownership⁽⁴⁾

1. Investment Committee
2. Audit Committee
3. Compensation, Governance and Nominating Committee
4. Includes officers and the families of trustees and officers

CORPORATE INFORMATION

TAXABILITY OF DISTRIBUTIONS

The REIT's cash distributions amounted to \$0.59 per Unit during 2022 (including a \$0.05 per Unit special cash distribution to unitholders of record on December 30, 2022). The REIT also made a special distribution to unitholders of record on December 30, 2022 of \$0.35 per Unit payable in additional Units, which were immediately consolidated such that there was no change in the number of outstanding Units. The amount of the special distribution payable in Units (\$0.35 per Unit) will increase the adjusted cost basis of unitholders' consolidated Units.

PLAN ELIGIBILITY

RRSP, RRIF, DPSP, RESP, RDSP, TFSA, FHSA

STOCK EXCHANGE LISTING

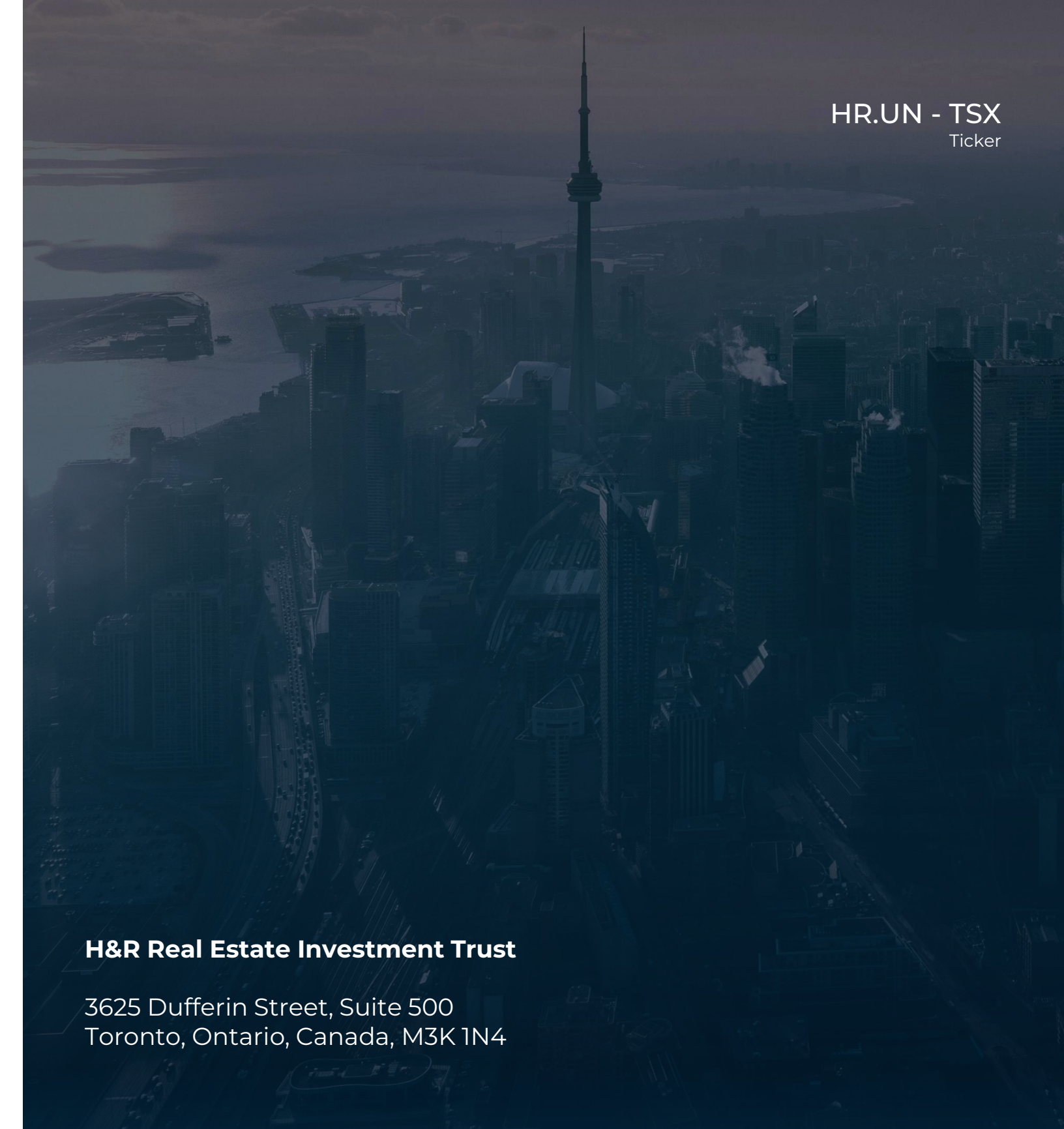
Units of H&R are listed on the Toronto Stock Exchange under the trading symbol HR.UN.

REGISTRAR AND TRANSFER AGENT

TSX Trust Company, 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: shareholderinquiries@tmx.com, Website: www.txstrust.com.

CONTACT INFORMATION

Investors, investment analysts and others seeking financial information should go to our website at www.hr-reit.com, or e-mail info@hr-reit.com, or call 1-214-421-4400 and ask for Philippe Lapointe, President, 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..



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Ticker

H&R Real Estate Investment Trust

3625 Dufferin Street, Suite 500
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