H&R REIT

2023 ANNUAL REPORT

145 Wellington Street
Toronto, ON

ABOUT THE COVER

145 Wellington St. W. is located at the interface between Toronto's Financial District and Entertainment District. The redevelopment contemplates the demolition of an existing 13 storey office building and the construction of an architecturally significant, 60 storey tower with 512 residential rental units, 155,000 square feet of office space and 1,000 square feet of retail space. Of these residences, approximately 57% will be larger, family-oriented two or three-bedroom units. The proximity to adjacent employment, entertainment, sports and numerous transportation options results in an unrivalled place to live, work and play. The tower will provide residents with spectacular views of the downtown core and Lake Ontario and will become a notable address to live and work.

ABOUT H&R REIT

H&R REIT is one of Canada's largest real estate investment trusts with total assets of approximately $10.8 billion as at December 31, 2023. H&R REIT has ownership interests in a North American portfolio comprised of high-quality residential, industrial, office and retail properties comprising over 26.9 million square feet. H&R's strategy is to create a simplified, growth-oriented business focused on residential and industrial properties in order to create sustainable long term value for unitholders. H&R plans to sell its office and retail properties as market conditions permit. 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. .

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, 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 year ended December 31, 2023.

FEBRUARY 13, 2024

FELLOW UNITHOLDERS,

TOM HOFSTEDTER
Executive Chairman & CEO

H&R continued to successfully execute on its 5-year strategic plan (as articulated in late 2021) to a more simplified and growth-oriented REIT, as was highlighted in our February 13 press release announcing our fourth quarter and year ended December 31, 2023 results.

Our strategy is focused on recycling capital out of primarily office and retail properties through (1) disposition, (2) by unlocking value through rezoning to residential and industrial uses, and (3) by redeploying capital into repurchasing our units and by growing our class A residential and industrial properties, all while remaining mindful by protecting the quality and strength of our balance sheet.

After having successfully spun off Primaris to unitholders with approximately $2.4 billion of value and having sold approximately $2.0 billion and $463 million in non-core properties in 2021 and 2022, respectively, we continued our disposition program in 2023, with the sale of a further $433 million of properties. Proceeds from these sales were used to continue repurchasing our units, to pay down debt, and to fund our development program. We accomplished this even though 2023 was a very difficult year to dispose of assets, especially office assets, due to volatile debt, equity and real estate markets.

As we enter 2024, we fully expect to continue this momentum, starting with the expected sale in April 2024 of 25 Dockside Drive, a 479,437 square foot office building in downtown Toronto, for $233 million, further advancing our strategic repositioning plan.

While we improved our growth profile, we also improved our financial condition as we ended the year with approximately $950 million in liquidity, a debt to total asset ratio at the REIT's proportionate share[1] of 44%, and a $4.2 billion unencumbered pool of assets, providing significant financial capacity and flexibility.

Same-Property net operating income (cash basis)[1] increased by 10.3% compared to 2022, while cash distributions increased by 18.6% and our overall occupancy was 96.5% as at December 31, 2023.

Importantly, as at year end 2023, class A residential and industrial properties represented 61% of our portfolio and our total office exposure was reduced to 17% of our real estate assets. In addition, we have nine office properties representing a further 7% of our real estate assets that are advancing through the rezoning and intensification process to be redeveloped into predominately residential properties.

On the development front, our two industrial properties under construction in Mississauga, Ontario, are expected to be completed on budget and on time, in Q1 2024, and are both fully leased.

We expect to commence construction later this year, on three industrial properties in Mississauga, Ontario representing a total of 431,000 square feet, at H&R's ownership interest.

Our two residential development properties in Dallas, Texas, are expected to be ready for occupancy in the latter half of this year, and we are planning the construction of two multi-residential developments comprising 601 units, in Orlando and Tampa, later this year.

Our equity multiple ended 2023 at approximately 9x AFFO which does not appear to reflect the significant percentage (61%) of our portfolio that is class A residential and industrial properties. As we continue to simplify our portfolio into these high growth areas, we believe our equity multiple should eventually align with our residential and industrial peers rather than trade as if we are still primarily an office and retail REIT.

As one of Canada's largest real estate investment trusts, H&R strives to lead by example and be a part of the ever-changing journey to a more sustainable future.

The REIT considers 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 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.

Our recent board additions, including Independent Lead Trustee Donald Clow, Lindsay Brand, and Leonard Abramsky, underscore our dedication to effective governance, strategic advancement, diversity, equity and inclusion.

We look forward to working with them and we are confident that they will make meaningful contributions to help us achieve our strategic objectives.

Stubbornly high interest rates, work from home, a fragile economy, and global conflict will all create challenges over the balance of 2024, but with it will also come opportunities.

Our strong balance sheet, access to both secured and unsecured debt, as well as our capital recycling program will give us the financial capacity and flexibility to help us through these tumultuous times.

Lastly and most importantly, it is the dedication and creativity of our team of devoted employees, trustees, and the support and confidence of our unitholders that will enable us to thrive.

Thank you all for your support and confidence.

Respectfully,

TOM HOFSTEDTER
Executive Chairman & Chief Executive Officer

EXPERIENCED AND TENURED EXECUTIVE TEAM

A RESULTS-ORIENTED LEADERSHIP TEAM

TOM HOFSTEDTER
Executive Chairman & CEO

LARRY FROOM, CPA/CA
CFO

ROBYN KESTENBERG
EVP, Office & Industrial

EMILY WATSON
COO,
Lantower Residential

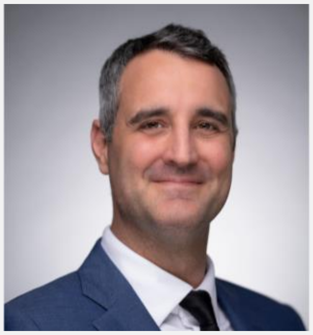
COLLEEN GRAHN
President, Property
Management
Lantower Residential

HUNTER WEBB
EVP, Development
Lantower Residential

TONY DUPLISSE
EVP, Portfolio
Management
Lantower Residential

CHERYL FRIED CPA/CA
EVP, Finance

BLAIR KUNDELL
EVP, Operations



MATT KINGSTON
EVP, Development
& Construction

AUDREY CRAIG
EVP, Accounting,
Lantower Residential

TERRESA PORIZEK
EVP,
Organization Development
Lantower Residential

REPOSITIONING FOR GROWTH

REPOSITION

- **Advance the rezoning** for redevelopment of approximately $703 million of office properties into predominantly upscale residential properties within growing markets
- **Exit Office** Over Time
- **Exit Retail** Over Time

GROWTH

- **Grow class A residential** property exposure through acquisitions and developments in **high growth U.S. gateway and sun belt cities**
- **Build and expand the institutional-quality distribution-focused industrial platform** through acquisition and development

DIVERSIFIED TO SIMPLIFIED

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

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, 2023

Dated: February 13, 2024

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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, 2023 includes material information up to February 13, 2024. Financial data for the years ended December 31, 2023 and 2022 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, 2023 ("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.

The Bow office property in Calgary, AB (the "Bow") was legally disposed of in October 2021. The 100 Wynford office property in Toronto, ON ("100 Wynford") was legally disposed of in August 2022. These transactions did not meet the criteria of a transfer of control under IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") as the REIT has an option to repurchase 100% of both of these properties for a fixed price in 2038 and 2036, respectively, or earlier under certain circumstances. As such, the REIT continues to recognize these income producing properties in the REIT's Financial Statements and MD&A. Certain operating metrics within this MD&A have been adjusted to exclude the impact of the Bow and 100 Wynford and H&R has identified these disclosures accordingly. Refer to the *"Other Liabilities - Deferred Revenue"* section of this MD&A for further information.

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 "Investment Properties", "Future Intensification Opportunities", "Other Liabilities", "Segment Information", "Income and Expense Items", "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 "Summary of Significant 2023 Activity" including with respect to H&R's future plans and targets, H&R's intention to continue disposing of office and retail properties, H&R's strategy to grow its exposure to residential assets in U.S. sun belt 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 acquisition, 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 continuing to provide access to capital at a reasonable cost, notwithstanding the current interest rate environment; and assumptions concerning currency exchange and interest rates. Additional risks and uncertainties include, among other things, those related to:

real property ownership; the 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; cyber security risk; risks associated with disease outbreaks; 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; potential conflicts of interest; Unit prices; availability of cash for distributions; credit ratings; ability to access capital markets; dilution; unitholder liability; redemption right; investment eligibility; debentures; statutory remedies; tax risk; and additional tax risks applicable to unitholders. H&R cautions that these lists of factors, risks and uncertainties are not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what H&R believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

Readers are also urged to examine H&R's materials filed with the Canadian securities regulatory authorities from time to time as they may contain discussions on risks and uncertainties which could cause the actual results and performance of H&R to differ materially from the forward-looking statements contained in this MD&A. All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements are made as of February 13, 2024 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.

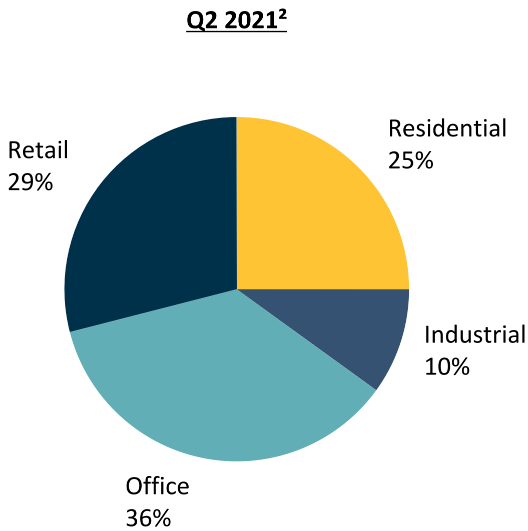
OVERVIEW AND STRATEGY

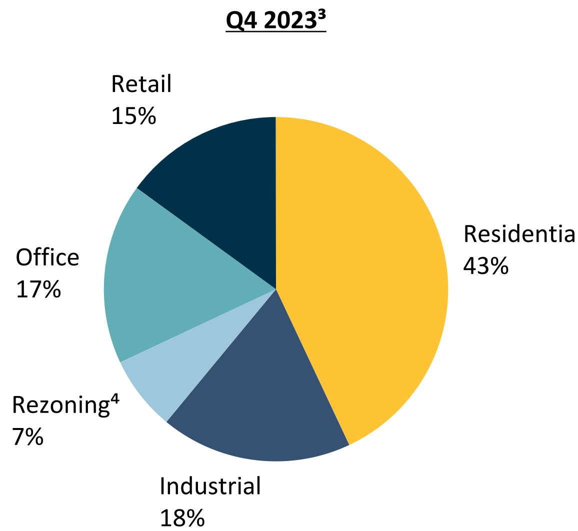
H&R is one of Canada's largest real estate investment trusts with total assets of approximately $10.8 billion as at December 31, 2023. H&R has ownership interests in a North American portfolio comprised of high-quality residential (operating as Lantower Residential), industrial, office and retail properties totalling approximately 26.9 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. H&R's units ("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.

H&R's strategy is to create a simplified, growth-oriented business focused on residential and industrial properties in order to create sustainable long-term value for unitholders. H&R is currently undergoing a repositioning plan and intends to sell its office and retail properties as market conditions permit. H&R's vision 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. sun belt and gateway cities.

Since the announcement of H&R's Strategic Repositioning Plan on October 27, 2021, H&R's residential and industrial portfolios have grown in aggregate from 35% to 61% of total real estate assets as at December 31, 2023.

***Real Estate Assets*[1]**





(1) At the REIT's proportionate share, including assets classified as held for sale. Refer to the *"Non-GAAP Measures"* section of this MD&A.
(2) Q2 2021 has been used as a benchmark since H&R's Strategic Repositioning Plan was announced prior to the release of Q3 2021 results.
(3) Excludes the Bow and 100 Wynford.
(4) Includes nine properties advancing through the rezoning and intensification process to be converted into predominantly residential properties.

STRATEGIC REPOSITIONING HIGHLIGHTS DURING THE LAST 30 MONTHS

- Completed a spin off, on a tax-free basis, of 27 properties including all of the REIT's enclosed shopping centres to a new publicly-traded REIT, Primaris REIT, valued at approximately $2.4 billion;
- 45 investment properties totaling approximately $2.4 billion were sold including the Bow and 100 Wynford;
- H&R to date has contracted to sell a further $293.2 million of properties in 2024;
- H&R's residential real estate assets at the REIT's proportionate share[(1)] increased from approximately $3.4 billion as at June 30, 2021 to approximately $4.4 billion as at December 31, 2023;
- H&R's industrial real estate assets at the REIT's proportionate share[(1)] increased from approximately $1.3 billion as at June 30, 2021 to approximately $1.9 billion as at December 31, 2023;
- H&R's office portfolio exposure at the REIT's proportionate share[(1)] was reduced from approximately $5.1 billion at June 30, 2021 to approximately $2.5 billion at December 31, 2023 ($703.5 million are properties advancing through the rezoning process);
- H&R's retail portfolio at the REIT's proportionate share[(1)] decreased from approximately $4.0 billion as at June 30, 2021 to approximately $1.6 billion as at December 31, 2023;
- H&R's portion of residential and industrial real estate assets at the REIT's proportionate share[(1)] increased from 35% as at June 30, 2021 to 61% as at December 31, 2023;
- Debt per the REIT's Financial Statements was reduced from approximately $6.1 billion as at June 30, 2021 to approximately $3.7 billion as at December 31, 2023;
- Debt to total assets at the REIT's proportionate share[(2)(3)] improved from 50.0% at June 30, 2021 to 44.0% as at December 31, 2023;
- The unencumbered asset to unsecured debt coverage ratio improved from 1.65x as at June 30, 2021 to 2.16x as at December 31, 2023;
- Debt to Adjusted EBITDA (based on trailing 12 months) at the REIT's proportionate share[(2)(3)(5)] improved from 10.4x at June 30, 2021 to 8.5x at December 31, 2023;
- The REIT repurchased 27.0 million Units totalling $339.8 million between June 30, 2021 and December 31, 2023;
- Operating results improved with a 14.9% increase in Same-Property net operating income (cash basis)[(1)] in 2022 and a further 10.3% in 2023;
- Overall Occupancy grew from 93.7 % at June 30, 2021 to 96.5% at December 31, 2023;
- H&R's exposure to Alberta real estate assets, at the REIT's proportionate share[(1)], was reduced from 16.9% at June 30, 2021 to only 4.5% at December 31, 2023.

(1) These are non-GAAP measures. Refer to the "Non-GAAP Measures" section of this MD&A.
(2) Debt includes mortgages payable, debentures payable, unsecured term loans, lines of credit and liabilities classified as held for sale.
(3) These are non-GAAP ratios. Refer to the "Non-GAAP Measures" section of this MD&A.
(4) 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.
(5) Adjusted EBITDA is defined in the "*Debt*" section of this MD&A.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

As one of Canada's largest real estate investment trusts, 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. 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 published its 2022 Sustainability Report in October 2023, highlighting Environmental, Social and Governance ("ESG") initiatives and accomplishments for the 2022 calendar year. This 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 Canada Inc., a global leader in intelligent asset management solutions, to benchmark the REIT's performance within the real estate investment trust industry, ensuring transparency and continuous improvement year-over-year.

The REIT's Compensation, Environmental, Social & Governance and Nominating Committee (the "CESG&N Committee"), currently comprised of Brenna Haysom (Chair), Lindsay Brand, Donald Clow and S. Stephen Gross, is responsible for ESG oversight at the REIT level.

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; the result was an increase in data coverage from 22% of 2018 usage (Carbon Disclosure Project ("CDP") 2019 Reporting) to 76% of 2022 usage (CDP 2023 Reporting);
- 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 CDP since 2016, reflecting 2015 performance onwards. In 2023 (based on 2022 data and performance), H&R scored third (tied) among 12 Canadian real estate investment trusts;
- H&R continues the drive to improve the environmental footprint of its assets. The COVID-19 pandemic has had a significant impact on GHG emissions for office and retail buildings since early 2020. As expected, despite continued progress in energy efficiency, emissions from office and retail properties increased in 2022, relative to 2021, as the impacts of the pandemic eased and occupants returned to work. This trend appears widespread across the commercial real estate market. Increased occupancy at a large multi-family property completed in 2021 led to an increase in 2022 emissions in the residential portfolio as well. Overall, H&R's like-for-like energy use increased by 2.7% in 2022 compared to 2021 and like-for-like market-based emissions increased by 8.3%. H&R is confident that as operations and occupancy stabilize, the efficiency improvements made will be reflected in the energy and utility performance in future years.

- H&R's like-for-like water use decreased by 5.4% in 2022 compared to 2021;
- To further expand utility data coverage, H&R implemented waste tracking at H&R managed properties in 2021 wherever H&R manages waste collection and is able to access diversion reports.
- H&R engaged KPMG LLP ("KPMG") to provide limited assurance over selected Scope 1, 2 and 3 data for GHG emissions included in the Sustainability Report for the year ended December 31, 2022. The scope of KPMG's engagement and their assurance report can be found in the Sustainability Supplement and in the Appendix of that report on pages 43 to 46, 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 at December 31, 2022, 74% of H&R's Office portfolio (based on net rentable area) was LEED, BOMA Best and/or ENERGY STAR Certified;
- H&R utilized ENERGY STAR® Portfolio Manager, a cloud-based software program utilized by Natural Resources Canada and the United States Environmental Protection Agency, to benchmark the energy performance of H&R's properties. ENERGY STAR® Portfolio Manager provides each building with a score which allows our operations and management teams to visualize the energy performance of H&R buildings and identify areas of improvement. As at December 31, 2022, 80% of H&R's Office Portfolio is actively tracked on ENERGY STAR® Portfolio Manager, and 90% of H&R's Lantower Residential Division is actively tracked on ENERGY STAR® Portfolio Manager.
- GRESB is an independent organization providing validated ESG performance data and peer benchmarks for investors and managers to improve business intelligence, industry engagement and decision-making. H&R submitted to the GRESB Real Estate Assessment again in 2023 (based on 2022 performance and data), 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.

Social

- As at December 31, 2023, 50% of H&R's Tier 1 and 2 Executives and 46% of H&R's Tier 3 Executives were women. Overall, 39% of H&R's workforce were women. As well, 40% 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 in 2023 by "Women Lead Here" highlighting the emphasis H&R places on diversity and inclusion and has been recognized for the fourth consecutive year;
- 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 Lantower Residential division with its Living to Giving program which works with several reputable charitable organizations to provide food, shelter and resources to local communities where Lantower Residential properties are located;
- Employee and professional advancement is encouraged with first consideration given to existing staff. This allows movement and growth within the organization, thus enabling our employees to acquire new skills and achieve personal development;
- H&R offers 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, human rights and social media policy;
- 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 March 2023, H&R appointed Donald Clow to the Board. Mr. Clow filled the vacancy left by Ronald Rutman, who resigned from the Board following a successful term as vice-chair and Independent Lead Trustee. Subsequent to his appointment, the Board appointed Mr. Clow as Independent Lead Trustee of the Board.
- In June 2023, Lindsay Brand and Leonard Abramsky were elected to the Board. The Board is comprised of 40% women. A non-binding advisory resolution, as set out in the management information circular dated April 25, 2023 for the annual meeting of unitholders of the REIT, was passed, with 89.2% of the total votes in favour of the REIT's approach to executive compensation.
- Majority independent Board, with 80% of the Board being fully independent as at December 31, 2023;
- 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 CESG&N 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 more information on H&R's Sustainability Policy and additional information about its Sustainability Committee, Sustainability Report and Sustainability Supplement as well as H&R's Green Financing Framework and Second-Party Opinion of Green Financing Framework, visit H&R's website under "Investor Relations - Sustainability". The contents of the REIT's website, including the REIT's Sustainability Policy, Sustainability Report and Sustainability 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

SUMMARY OF SIGNIFICANT 2023 ACTIVITY

2023 Net Operating Income Highlights:

	Three months ended December 31			Year ended December 31		
(in thousands of Canadian dollars)	**2023**	2022	% Change	**2023**	2022	% Change
Operating Segment:						
Same-Property net operating income (cash basis) - Residential(1)	**$41,606**	$37,137	12.0%	**$161,901**	$136,341	18.7%
Same-Property net operating income (cash basis) - Industrial(1)	**17,377**	15,839	9.7%	**68,130**	60,566	12.5%
Same-Property net operating income (cash basis) - Office(1)	**44,536**	43,741	1.8%	**183,227**	174,224	5.2%
Same-Property net operating income (cash basis) - Retail(1)	**24,180**	24,697	(2.1)%	**94,306**	89,216	5.7%
Same-Property net operating income (cash basis)(1)	**127,699**	121,414	5.2%	**507,564**	460,347	10.3%
Net operating income (cash basis) from Transactions at the REIT's proportionate share(1)(2)	**30,072**	38,504	(21.9)%	**136,609**	159,794	(14.5)%
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share(1)(3)	**14,946**	12,600	18.6%	**—**	—	—%
Straight-lining of contractual rent at the REIT's proportionate share(1)	**2,623**	3,588	(26.9)%	**12,100**	6,890	75.6%
Net operating income from equity accounted investments(1)	**(27,980)**	(27,994)	0.1%	**(109,669)**	(92,082)	(19.1)%
Net operating income per the REIT's Financial Statements	**$147,360**	$148,112	(0.5)%	**$546,604**	$534,949	2.2%

(1) These are non-generally accepted accounting principles ("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 three months and year ended December 31, 2023.

2023 Transaction Highlights

<u>Property Dispositions</u>

In January 2023, H&R sold its 50% ownership interest in a 95,225 square foot single tenanted office property in Calgary, AB for approximately $16.8 million, which was classified as held for sale as at December 31, 2022. The purchaser assumed H&R's 50% share of the outstanding mortgage payable totalling approximately $6.3 million. In addition, H&R provided a vendor take-back mortgage to the purchaser for $7.0 million bearing interest at 5.5% per annum maturing September 1, 2029.

In April 2023, H&R sold 160 Elgin Street, a 973,661 square foot office property in Ottawa, ON for $277.0 million. H&R received $67.0 million on closing and provided two vendor take-back mortgages ("VTB") to the purchaser: (i) $30.0 million which is subordinate to the first mortgage on the property, bearing interest at 4.5% per annum, maturing April 20, 2028 and (i) $180.0 million secured by a first mortgage on the property, bearing interest at 6.5% per annum, which was repaid in Q3 2023. The VTB proceeds of $180.0 million were used to repay debt, including a $125.0 million unsecured term loan, originally scheduled to mature on November 30, 2024.

In July 2023, H&R sold four single tenanted retail properties in Québec totalling 476,802 square feet for $68.0 million. The proceeds were used to repay debt and repurchase Units under the REIT's normal course issuer bid ("NCIB").

In August 2023, H&R sold a 85,725 square foot single tenanted office property in Temple Terrace, FL for $17.7 million (U.S. $13.3 million). The tenant's lease expired on June 30, 2023 and the property was vacant at closing.

In August 2023, H&R sold a 13,510 square foot automotive-tenanted retail property in Roswell, GA for approximately $4.7 million (U.S. $3.6 million). The property was 37.5% occupied at closing.

In October 2023, H&R sold a 92,694 square foot single tenanted office property in Dallas, TX for approximately $7.0 million (U.S. $5.1 million). The tenant had relocated its operations to another property and given notice to H&R that it was not going to renew its lease, which was scheduled to expire on December 31, 2025.

In October 2023, H&R sold a 163,936 square foot single tenanted industrial property in Philadelphia, PA for approximately $37.7 million (U.S. $27.5 million). H&R has ownership interests in two remaining industrial properties in the U.S.

In December 2023, H&R announced it had entered into an agreement to sell 25 Dockside Drive for $232.5 million to George Brown College and Halmont Properties Corporation. The property is an office property located directly on the waterfront in downtown Toronto, comprising 479,437 square feet and is substantially leased to Corus Entertainment. The sale is expected to close in April 2024 and is subject to customary closing conditions.

Including 25 Dockside Drive, H&R's 2023 properties sold or under contract to be sold totalled $665.4 million, exceeding the disposition target of $600.0 million.

H&R's various property sales during 2023 (including properties under contract to be sold) are consistent with the REIT's strategic repositioning plan to surface significant value for unitholders, by transforming into a simplified, growth-oriented company focused on residential and industrial properties.

Properties Acquired for Future Development

In April 2023, H&R acquired a 50% ownership interest in 27.0 acres of land in Orlando, FL ("West Town") for $18.4 million (U.S. $13.8 million) at H&R's ownership interest, which is expected to be developed into 541 residential rental units. The site is located in the Altamonte Springs submarket of Orlando and is close to Maitland, a large professional office submarket, as well as Cranes Roost Park, the Altamonte Mall and numerous retailers.

In June 2023, H&R acquired a 33.3% non-managing ownership interest in 17.6 acres of land in Carlsbad, CA for $22.6 million (U.S. $17.0 million) at H&R's ownership interest. This acquisition ("Sunny Creek") will be accounted for as an equity accounted investment. The site is located in Carlsbad, a coastal city in northwest San Diego County, approximately four miles from Carlsbad State Beach and downtown Carlsbad, and is close to major highways and business parks, including the headquarters for TaylorMade and Callaway. The site is expected to include an apartment project consisting of 227 residential rental units and a townhome for sale project comprising 130 units.

Proceeds on Disposal of Purchase Option

H&R had a mortgage receivable of approximately $37.2 million (U.S. $27.6 million) secured against industrial land in North Las Vegas, NV. In addition, H&R had an option to purchase the land. H&R sold its option to purchase the land and received repayment of its mortgage receivable from the borrower. The combined proceeds from the repayment of the mortgage receivable and the sale of the option amounted to $67.8 million (U.S. $50.2 million), which were received in August 2023. As a result, H&R recorded $30.6 million (U.S. $22.6 million) as proceeds on disposal of purchase option.

Leasing Highlights:

In Q1 2023, H&R completed a 5-year lease renewal on a 132,735 square foot industrial property in Mississauga, ON, at H&R's 50% ownership interest. The original lease expired in February 2023 and rent increased by $9.70 per square foot commencing in March 2023 with annual contractual rent escalations. The tenant had a free rent period for March and April 2023.

In Q1 2023, H&R completed a 5-year lease renewal on a 37,600 square foot industrial property in Mississauga, ON, at H&R's 94% ownership interest. The original lease expired in July 2023 and rent increased by $8.25 per square foot commencing in August 2023 with contractual rent escalations. The tenant has a free rent period for the months of August 2023, August 2024 and August 2025.

In Q1 2023, H&R entered into a lease amendment with its tenant at 6900 Maritz Drive in Mississauga, ON to terminate their lease in December 2023. The terms of the rental payments to December 2023 did not change. The previous lease term would have ended in May 2031. H&R received a lease termination fee of approximately $0.9 million in Q1 2023 and received an additional $2.5 million in Q3 2023 ("6900 Maritz Lease Termination Payment"). 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 (“6900 Maritz Lease Amendment”), non-cash adjustments to straight-lining of contractual rent of nil, $0.8 million, ($1.8) million and $0.8 million were recorded in Q1 2023, Q2 2023, Q3 2023 and Q4 2023, respectively. Refer to the “Future Intensification” section below for further details regarding H&R’s plans to rezone this property from office to industrial use.

In Q2 2023, H&R leased 74,689 vacant square feet at a multi-tenanted industrial property in Toronto, ON, at H&R’s 50% ownership interest for a 5.5 year term commencing September 1, 2023 at market rents with annual contractual rental escalations. Previous tenants occupying 37,717 and 36,798 square feet, respectively, both at H&R’s ownership interest, vacated in February 2023 and May 2023, respectively. On average, annual contractual rent increased by $12.94 per square foot. In addition, H&R completed a 5 year lease renewal on 49,535 square feet at the same property at H&R’s ownership interest. The original lease expired in March 2023 and annual contractual rent increased by $12.40 per square foot commencing in April 2023 with annual contractual rent escalations. With these new leases, occupancy at this property increased from 53.1% as at June 30, 2023 to 100.0% as at September 30, 2023.

In Q4 2023, H&R completed a new 10-year lease for a 39,741 square foot industrial property in Whitby, ON, at H&R’s 50% ownership interest. The current tenant will be vacating in March 2024. The new tenant’s lease will commence in April 2024, and annual contractual rent will increase by $5.75 per square foot. The new tenant has a free rent period for the month of April 2024.

In Q4 2023, H&R received a lease termination fee of approximately $1.8 million from Telus Communications, who vacated 114,989 square feet at H&R’s 50% ownership interest at 3777 Kingsway in Burnaby, BC as part of H&R’s plan to rezone this property from office to residential. Telus Communications continues to occupy 218,471 square feet at H&R’s ownership interest until April 2026. 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 (“3777 Kingsway Lease Amendment”), a non-cash adjustment to straight-lining of contractual rent of ($1.7) million at H&R’s ownership interest was recorded in Q4 2023. Refer to the “Future Intensification” section below for further details regarding H&R’s plans to rezone this property from office to residential use.

Unitholder Activism and Severance Costs

In April 2023, H&R entered into a support agreement (the “Support Agreement”) with the K2 Principal Fund L.P. and K2 & Associates Investment Management Inc. (collectively, “K2”). Among other stipulations in the Support Agreement, K2 withdrew its four nominees for election at the meeting of unitholders on June 15, 2023 (“Unitholder Meeting”). K2 also agreed with H&R to support the election of two additional, mutually agreed upon, independent trustees to the Board, Lindsay Brand and Leonard Abramsky, with the size of the Board increasing by two to 10 trustees, and also agreed to vote in favour of the balance of the trustees slated for re-election. Mr. Abramsky and Ms. Brand were elected to the Board at the Unitholder Meeting.

In May 2023, Philippe Lapointe stepped down as President of H&R and as an officer of H&R’s subsidiary, Lantower Residential. Emily Watson, Lantower’s Chief Operating Officer, was appointed to lead the Lantower Residential division.

Included in trust expenses for the year ended December 31, 2023 is $4.3 million relating to the Support Agreement with K2 and severance costs.

Development Update

Canadian Properties under Development

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 both expected to be completed in Q1 2024. The REIT expects the costs remaining to complete these two properties under development to be approximately $9.4 million as at December 31, 2023. In February 2023, H&R entered into a lease agreement to fully lease 1965 Meadowvale Boulevard, totalling 187,290 square feet, for a term of 10 years at market rents with annual contractual rental escalations. In March 2023, H&R entered into a lease agreement to fully lease 1925 Meadowvale Boulevard, totalling 149,510 square feet, for a term of 12.5 years at market rents with annual contractual rental escalations.

Refer to the *“Properties Under Development - Canadian Properties Under Development”* section of this MD&A for further information.

U.S. Properties under Development

The REIT commenced construction on two U.S. residential development properties in 2022. The total development budget for these two properties is approximately $276.9 million (U.S. $209.8 million) with costs remaining to complete of approximately $118.2 million (U.S. $89.5 million). Both properties are expected to be completed on budget in the latter half of 2024.

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

Future Intensification

In February 2023, H&R attended a settlement hearing with the Ontario Land Tribunal ("OLT") and received rezoning approval with conditions for 53 & 55 Yonge Street for a 66-storey mixed use tower, including approximately 511 residential units, 159,000 square feet of replacement office area and 13,000 square feet of retail area. Subsequently, H&R made re-submissions to clear the conditions set by the OLT. H&R expects to have rezoning approval in place by the end of Q1 2024.

In July 2023, the final report recommending approval of the rezoning application for 310 Front Street West was adopted by Toronto City Council. The statutory appeal period for the passing of the zoning by-law was completed in August 2023, and the rezoning came into force and became binding. The rezoning approval is for a 65-storey mixed use tower including, 578 residential units, approximately 119,000 square feet of replacement office area and approximately 2,000 square feet of retail area.

In October 2023, H&R submitted a Site Plan approval application for 6900 Maritz Drive to the City of Mississauga to replace the existing 104,689 square foot office building with a new 122,413 square foot industrial building. Demolition of the existing office building has commenced and Site Plan approval with conditions was received in January 2024. Construction is expected to commence in Spring 2024.

NCIB

During the year ended December 31, 2023, the REIT purchased and cancelled 4,147,200 Units at a weighted average price of $10.30 per Unit, for a total cost of $42.7 million, representing an approximate 50.4% discount to NAV per Unit (a non-GAAP ratio, refer to the *"Non-GAAP Measures"* section of this MD&A).

2023 Cash Distributions

H&R's cash distributions amounted to $0.70 per Unit during 2023 (2022 - $0.59 per Unit) which comprised: (i) monthly cash distributions in aggregate of $0.60 per Unit (2022 - $0.54 per Unit); and (ii) a special cash distribution of $0.10 per Unit, further described below (2022 - $0.05 per Unit).

For the year ended December 31, 2023, H&R's payout ratio as a % of Adjusted Funds from Operations ("AFFO") (a non-GAAP ratio, refer to the *"Non-GAAP Measures"* section of this MD&A) was 63.0%.

2023 Taxation Consequences for Taxable Canadian Unitholders

H&R's cash distributions amounted to $0.70 per Unit during 2023 (including a $0.10 per Unit special cash distribution to unitholders of record on December 29, 2023). The REIT also made a special distribution to unitholders of record on December 29, 2023 of $0.52 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 ($0.52 per Unit) will increase the adjusted cost basis of unitholders' consolidated Units.

Debt & Liquidity Highlights

Mortgages

During the year ended December 31, 2023, H&R repaid eight mortgages totalling $103.6 million at a weighted average interest rate of 4.3%.

Debentures

In January 2023, H&R redeemed all of its $250.0 million Series O Senior Debentures, which bore interest at 3.416% per annum.

Subsequent to December 31, 2023, H&R redeemed all of its $350.0 million Series N Senior Debentures in January 2024, which bore interest at 3.369% per annum.

Unsecured Term Loans

In August 2023, H&R secured a one-year extension on a $250.0 million unsecured term loan which will now mature March 7, 2025.

In August 2023, H&R repaid a $125.0 million unsecured term loan, originally scheduled to mature on November 30, 2024.

Lines of Credit

In March 2023, H&R and its co-owner obtained a new $275.0 million non-revolving secured credit facility, at H&R's 50% ownership interest, secured by 42 industrial properties. Upon closing, the REIT and its co-owner repaid $12.5 million outstanding on its secured revolving $25.0 million line of credit facility, which matured as a part of closing this new facility, each at H&R's ownership interest.

In August 2023, H&R secured a one-year extension on its $150.0 million revolving unsecured line of credit which will now mature on September 20, 2024.

In September 2023, H&R secured a one-year extension on its $750.0 million revolving unsecured line of credit which will now mature on December 14, 2027.

As at December 31, 2023, debt to total assets per the REIT's Financial Statements was 34.2% compared to 34.4% as at December 31, 2022. As at December 31, 2023, debt to total assets at the REIT's proportionate share (a non-GAAP ratio, refer to the "Non-GAAP Measures" section of this MD&A) was 44.0%, which was the same as at December 31, 2022.

As at December 31, 2023, H&R had cash and cash equivalents of $64.1 million, $886.5 million available under its unused lines of credit and an unencumbered property pool of approximately $4.2 billion.

PORTFOLIO SUMMARY

(in thousands of Canadian dollars, except for statistics) (All periods exclude the Bow and 100 Wynford)	Q4 2023	Q4 2022
Residential:[1]		
Number of properties	**24**	24
Square feet	**7,499**	7,498
Residential rental units	**8,166**	8,164
Occupancy	**94.3%**	94.5%
Contractual mortgages payable including liabilities classified as held for sale	**$1,698,031**	$1,837,890
Investment properties including assets classified as held for sale	**$3,668,856**	$3,877,344
Capitalization rate	**4.47%**	4.20%
Rentals from investment properties	**$71,752**	$69,651
Net operating income	**$50,483**	$45,742
Same-Property net operating income (cash basis)[2]	**$41,606**	$37,137
Industrial:[1]		
Number of properties	**70**	74
Square feet	**8,554**	8,759
Occupancy	**99.2%**	97.9%
Average remaining term to maturity of commercial leases (in years)	**4.6**	5.5
Contractual mortgages payable including liabilities classified as held for sale	**$258,015**	$274,687
Investment properties including assets classified as held for sale	**$1,473,037**	$1,490,939
Capitalization rate	**5.30%**	5.16%
Rentals from investment properties	**$24,508**	$22,012
Net operating income	**$19,005**	$16,791
Same-Property net operating income (cash basis)[2]	**$17,377**	$15,839
Office:[1]		
Number of properties	**21**	25
Square feet	**5,611**	6,803
Occupancy	**95.9%**	98.6%
Average remaining term to maturity of commercial leases (in years)	**6.8**	7.5
Contractual mortgages payable including liabilities classified as held for sale	**$230,683**	$256,074
Investment Properties including assets classified as held for sale	**$2,463,487**	$3,007,995
Capitalization rate	**6.87%**	6.43%
Rentals from investment properties	**$71,533**	$86,984
Net operating income	**$50,935**	$57,492
Same-Property net operating income (cash basis)[2]	**$44,536**	$43,741
Retail:[1]		
Number of properties	**272**	281
Square feet	**5,203**	5,711
Occupancy	**96.2%**	95.3%
Average remaining term to maturity of commercial leases (in years)	**8.3**	8.6
Contractual mortgages payable including liabilities classified as held for sale	**$111,145**	$127,543
Investment properties including assets classified as held for sale[3]	**$1,561,406**	$1,718,371
Capitalization rate	**6.49%**	6.40%
Rentals from investment properties	**$35,369**	$36,346
Net operating income	**$27,683**	$29,392
Same-Property net operating income (cash basis)[2]	**$24,180**	$24,697
Total:[1]		
Number of properties	**387**	404
Square feet	**26,867**	28,771
Occupancy	**96.5%**	96.6%
Average remaining term to maturity of commercial leases (in years)	**6.8**	7.4
Contractual mortgages payable including liabilities classified as held for sale	**$2,297,874**	$2,496,194
Investment properties including assets classified as held for sale[3]	**$9,166,786**	$10,094,649
Capitalization rate	**5.59%**	5.37%
Rentals from investment properties	**$203,162**	$214,993
Net operating income	**$148,106**	$149,417
Same-Property net operating income (cash basis)[2]	**$127,699**	$121,414

(1) All figures have been reported at the REIT's proportionate share, which is a non-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 right-of-use assets in a leasehold interest for Q4 2023 and Q4 2022 of $31.3 million, and $35.6 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.

OPERATIONS		Residential	Industrial	Office[3]	Retail	Total
Occupancy as at December 31	**2023**	**94.3%**	**99.2%**	**95.9%**	**96.2%**	**96.5%**
	2022	94.5%	97.9%	98.6%	95.3%	96.6%
Occupancy – Same-Property as at December 31[1]	**2023**	**94.6%**	**99.2%**	**96.0%**	**96.2%**	**96.6%**
	2022	94.9%	99.4%	98.9%	95.0%	97.2%
Average annual contractual rent per sq.ft. for the twelve months ended December 31-Canadian properties[2]	**2023**	**N/A**	**$8.92**	**$21.51**	**$12.92**	**$12.97**
	2022	N/A	$8.14	$21.47	$12.08	$13.09
Average annual contractual rent per sq.ft. for the twelve months ended December 31-U.S. properties (USD)[2]	**2023**	**$27.15**	**$3.41**	**$39.00**	**$19.21**	**$25.61**
	2022	$26.53	$4.16	$35.32	$19.17	$24.70
Average remaining term to maturity of leases as at December 31 (in years)	**2023**	**N/A**	**4.6**	**6.8**	**8.3**	**6.8**
	2022	N/A	5.5	7.5	8.6	7.4
Average remaining term to maturity of mortgages payable as at December 31 (in years)	**2023**	**4.6**	**3.0**	**2.3**	**7.0**	**4.3**
	2022	5.4	3.6	5.2	7.8	5.3

(1) Same-Property refers to those properties owned by H&R for the two-year period ended December 31, 2023.
(2) Excludes properties sold in their respective year.
(3) The Bow and 100 Wynford have been excluded from the above statistics as they were legally sold in October 2021 and August 2022, respectively. Refer to the *"Other Liabilities - 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, 2023 in the tables below:

Number of Properties[1][2]		**Canada**				
	Ontario	**Alberta**	**Other**	**Subtotal**	**United States**	**Total**
Residential[3]	—	—	—	—	24	24
Industrial	36	16	16	68	2	70
Office	13	1	4	18	3	21
Retail	30	1	3	34	238	272
Total	79	18	23	120	267	387

Square Feet (in thousands)[1][2]		**Canada**				
	Ontario	**Alberta**	**Other**	**Subtotal**	**United States**	**Total**
Residential[3]	—	—	—	—	7,499	7,499
Industrial	4,967	1,923	1,128	8,018	536	8,554
Office	2,642	466	893	4,001	1,610	5,611
Retail	1,469	150	231	1,850	3,353	5,203
Total	9,078	2,539	2,252	13,869	12,998	26,867

(1) Excludes the Bow and 100 Wynford, as these properties were legally sold in October 2021 and August 2022, respectively.
(2) Excludes all properties held for development. Refer to the *"Properties Under Development"* section of this MD&A for further information on properties held for development.
(3) The residential properties contain 8,166 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, 2023 at the REIT's proportionate share, excluding the Residential segment where leases typically expire annually.

Canadian Portfolio:

	Industrial		**Office**		**Retail**		**Total**		
Lease Expiries	Sq.ft.	Rent per sq.ft. ($) on expiry	Sq.ft.	Rent per sq.ft. ($) on expiry	Sq.ft.	Rent per sq.ft. ($) on expiry	Sq.ft.	% of Canadian sq. ft.	Rent per sq.ft. ($) on expiry
2024	959,071	11.29	419,629	8.68	64,298	15.44	1,442,998	10.4%	10.72
2025	726,932	6.83	400,219	20.32	127,266	13.62	1,254,417	9.1%	11.82
2026	407,347	7.99	915,089	15.78	104,759	13.23	1,427,195	10.3%	13.37
2027	2,947,172	7.20	341,058	22.44	126,807	10.67	3,415,037	24.6%	8.85
2028	520,759	11.79	94,740	23.96	174,098	7.43	789,597	5.7%	12.29
	5,561,281	8.34	2,170,735	16.65	597,228	11.32	8,329,244	60.1%	10.72

U.S. Portfolio:

	Industrial		**Office**		**Retail**		**Total**		
Lease Expiries	Sq.ft.	Rent per sq.ft. ($) on expiry[1]	Sq.ft.	Rent per sq.ft. ($) on expiry[1]	Sq.ft.	Rent per sq.ft. ($) on expiry[1]	Sq.ft.	% of U.S. sq. ft.	Rent per sq.ft. ($) on expiry[1]
2024	123,090	3.75	9,000	16.00	156,704	14.01	288,794	5.2%	9.70
2025	—	—	—	—	168,882	22.02	168,882	3.1%	22.02
2026	—	—	284,062	36.01	165,894	22.55	449,956	8.2%	31.05
2027	—	—	—	—	355,311	16.61	355,311	6.5%	16.61
2028	—	—	2,912	21.00	344,873	18.14	347,785	6.3%	18.16
	123,090	3.75	295,974	35.25	1,191,664	18.30	1,610,728	29.3%	20.31

(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, 2023 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	8.5%	1	845	9.2	BBB- Watch Positive
2.	New York City Department of Health	6.5%	1	660	6.9	A+ Stable
3.	Giant Eagle, Inc.	5.2%	195	1,634	8.9	Not Rated
4.	TC Energy Corporation	3.0%	1	466	7.3	BBB+ Negative
5.	Corus Entertainment Inc.	2.9%	1	472	9.2	B+ Stable
6.	Canadian Tire Corporation[3]	2.4%	3	2,110	3.1	BBB Stable
7.	Ovintiv Inc.[4]	1.8%	—	—	14.4	BBB- Stable
8.	Toronto-Dominion Bank	1.6%	3	270	3.9	AA- Stable
9.	Royal Bank of Canada	1.3%	2	227	1.7	AA- Stable
10.	Lowe's Companies, Inc.	1.2%	7	650	10.1	BBB+ Stable
11.	Bell Canada	1.1%	2	438	3.0	BBB+ Stable
12.	Finning International Inc.	0.9%	10	366	6.0	BBB+ Stable
13.	Telus Communications	0.9%	1	218	2.3	BBB Stable
14.	Sobeys Inc.	0.9%	9	331	7.3	BBB- Stable
15.	Metro Inc.	0.9%	11	369	4.6	BBB Stable
16.	Purolator Inc.	0.7%	12	535	5.7	Not Rated
17.	Miami-Dade County[5]	0.6%	1	93	13.8	AA Stable
18.	Deutsche Post AG	0.6%	1	343	7.1	Not Rated
19.	Government of Ontario[6]	0.6%	3	114	7.1	A+ Positive
20.	Publix Super Markets, Inc.	0.6%	9	162	12.8	Not Rated
	Total	**42.2%**	**273**	**10,303**	**7.9**	

(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) Canadian Tire Corporation includes Canadian Tire and Mark's.
(4) Ovintiv Inc. includes 15% of the net rent payable under the Ovintiv lease (as defined in the *"Other Liabilities - Deferred Revenue"* section of this MD&A).
(5) Miami-Dade County includes The Public Health Trust and Offices for State Attorney.
(6) 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 2023**	December 31 2022	December 31 2021
Total assets	**$10,777,643**	$11,412,603	$10,501,141
Debt to total assets per the REIT's Financial Statements(1)	**34.2%**	34.4%	37.1%
Debt to total assets at the REIT's proportionate share(1)(2)	**44.0%**	44.0%	46.6%
Debt to Adjusted EBITDA at the REIT's proportionate share(1)(2)(3)	**8.5**	9.6	7.2
Unitholders' equity	**$5,192,375**	$5,487,287	$4,773,833
Units outstanding	**261,868**	265,885	288,440
Exchangeable units outstanding	**17,974**	17,974	13,344
Unitholders' equity per Unit	**$19.83**	$20.64	$16.55
NAV per Unit(2)(4)	**$20.75**	$21.80	$17.70

	Three months ended December 31		Year ended December 31	
(in thousands except for per Unit amounts)	**2023**	2022	**2023**	2022
Rentals from investment properties	**$205,904**	$216,835	**$847,146**	$834,640
Net operating income	**$147,360**	$148,112	**$546,604**	$534,949
Same-Property net operating income (cash basis)(5)	**$127,699**	$121,414	**$507,564**	$460,347
Net income from equity accounted investments	**$145,320**	$53,473	**$145,459**	$47,139
Fair value adjustment on real estate assets	**($197,587)**	($224,480)	**($486,104)**	$546,081
Net income (loss)	**($11,313)**	($116,129)	**$61,690**	$844,823
Funds from Operations (“FFO”)(5)	**$83,650**	$87,874	**$373,351**	$341,183
AFFO(5)	**$68,677**	$62,483	**$313,171**	$287,336
Weighted average number of Units and exchangeable units for FFO	**279,842**	283,859	**281,815**	290,782
FFO per basic and diluted Unit(2)	**$0.299**	$0.310	**$1.325**	$1.173
AFFO per basic and diluted Unit(2)	**$0.245**	$0.220	**$1.111**	$0.988
Cash Distributions per Unit	**$0.250**	$0.188	**$0.700**	$0.590
Payout ratio as a % of FFO(2)	**83.6%**	60.6%	**52.8%**	50.3%
Payout ratio as a % of AFFO(2)	**102.0%**	85.5%	**63.0%**	59.7%

(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) Adjusted EBITDA is defined in the “*Debt”* section of this MD&A.
(4) Refer to the *“Unitholders’ Equity”* section of this MD&A for a detailed calculation of NAV per Unit.
(5) These are non-GAAP measures. Refer to the *“Non-GAAP Measures”* section of this MD&A.

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 2023	December 31 2022
For each U.S. $1.00	**$1.32 CAD**	$1.36 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, 2023			December 31, 2022		
(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	**$7,811,543**	**$2,148,012**	**$9,959,555**	$8,799,317	$2,128,306	$10,927,623
Properties under development	**1,074,819**	**135,635**	**1,210,454**	880,778	89,912	970,690
	8,886,362	**2,283,647**	**11,170,009**	9,680,095	2,218,218	11,898,313
Equity accounted investments	**1,165,012**	**(1,165,012)**	**—**	1,060,268	(1,060,268)	—
Assets classified as held for sale	**293,150**	**—**	**293,150**	294,028	—	294,028
Other assets	**369,008**	**21,866**	**390,874**	301,325	21,892	323,217
Cash and cash equivalents	**64,111**	**36,933**	**101,044**	76,887	38,443	115,330
	$10,777,643	**$1,177,434**	**$11,955,077**	$11,412,603	$1,218,285	$12,630,888
Liabilities and Unitholders' Equity						
Liabilities						
Debt	**$3,686,833**	**$1,097,839**	**$4,784,672**	$3,922,529	$1,137,210	$5,059,739
Exchangeable units	**177,944**	**—**	**177,944**	217,668	—	217,668
Deferred Revenue	**947,671**	**—**	**947,671**	986,243	—	986,243
Deferred tax liability	**437,214**	**—**	**437,214**	483,048	—	483,048
Accounts payable and accrued liabilities	**335,606**	**60,176**	**395,782**	309,505	58,502	368,007
Liabilities classified as held for sale	**—**	**—**	**—**	6,323	—	6,323
Non-controlling interest	**—**	**19,419**	**19,419**	—	22,573	22,573
	5,585,268	**1,177,434**	**6,762,702**	5,925,316	1,218,285	7,143,601
Unitholders' equity	**5,192,375**	**—**	**5,192,375**	5,487,287	—	5,487,287
	$10,777,643	**$1,177,434**	**$11,955,077**	$11,412,603	$1,218,285	$12,630,888

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

INVESTMENT PROPERTIES

2023 Acquisitions

H&R did not acquire any investment properties during the year ended December 31, 2023.

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 are 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.

2023 Dispositions

Property	Segment	Date Sold	Square Feet	Selling Price ($ Millions)	Ownership Interest Sold
2611-3rd Ave. S.E., Calgary, AB(1)(2)	Office	Jan 23, 2023	47,613	$16.8	50%
749 Douglas Fir Rd., Sparwood, BC(1)(2)	Industrial	Jan 27, 2023	15,892	2.2	50%
160 Elgin St., Ottawa, ON(1)	Office	Apr 20, 2023	973,661	277.0	100%
9331-48th St., Edmonton, AB(2)	Industrial	May 24, 2023	14,916	0.6	50%
225 Joseph Casavant Ave., Beauport, QC	Retail	Jul 6, 2023	124,182	17.2	100%
1 Boul. Bouthillier, Rosemere, QC	Retail	Jul 6, 2023	124,851	16.9	100%
7277 St. Jacques St., Montreal, QC	Retail	Jul 6, 2023	110,004	17.5	100%
5035 Boul. Cousineau, Saint-Hubert, QC	Retail	Jul 6, 2023	117,765	16.4	100%
5901 E. Fowler Ave., Temple Terrace, FL(3)	Office	Aug 1, 2023	85,725	17.7	100%
4845 & 4865 Alabama Rd., Roswell, GA(3)	Retail	Aug 2, 2023	13,510	4.7	100%
7575 Brewster Ave., Philadelphia, PA(3)	Industrial	Oct 3, 2023	163,936	37.7	100%
9330 Amberton Pkwy., Dallas, TX(3)	Office	Oct 12, 2023	92,694	7.0	100%
10755 Finning Front., Fort St. John. BC(2)	Industrial	Nov 20, 2023	10,630	1.2	50%
Total			1,895,379	$432.9	

(1) Classified as held for sale as at December 31, 2022.
(2) Square feet and selling price are based on the ownership interest sold, and H&R no longer holds any ownership interest in these assets.
(3) U.S. dispositions have been translated to Canadian dollars using the exchange rate on the day the property was sold.

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%
1947 & 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 the *"Other Liabilities - 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.

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 for the periods indicated:

December 31, 2023								
	REIT's Financial Statements		Equity Accounted Investments					
Operating Segment (in thousands of Canadian dollars)	Investment Properties	Properties Under Development	Investment Properties	Properties Under Development	REIT's Proportionate Share[1]	The Bow and 100 Wynford	Total	%
Residential	$2,399,491	$652,859	$1,269,365	$87,255	$4,408,970	$—	$4,408,970	43.7%
Industrial	1,391,722	410,930	20,665	19,168	1,842,485	—	1,842,485	18.3%
Office	3,316,906	11,030	—	—	3,327,936	(1,085,919)	2,242,017	22.2%
Retail	703,424	—	857,982	29,212	1,590,618	—	1,590,618	15.8%
Total	$7,811,543	$1,074,819	$2,148,012	$135,635	$11,170,009	($1,085,919)	$10,084,090	100.0%

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

December 31, 2023								
	REIT's Financial Statements		Equity Accounted Investments					
Geographic Location (in thousands of Canadian dollars)	Investment Properties	Properties Under Development	Investment Properties	Properties Under Development	REIT's Proportionate Share[1]	The Bow and 100 Wynford	Total	%
Ontario	$2,150,385	$410,930	$—	$19,168	$2,580,483	($108,968)	$2,471,515	24.5%
Alberta	1,390,283	—	—	—	1,390,283	(976,951)	413,332	4.1%
Other	429,680	11,030	—	—	440,710	—	440,710	4.4%
Canada	3,970,348	421,960	—	19,168	4,411,476	(1,085,919)	3,325,557	33.0%
United States	3,841,195	652,859	2,148,012	116,467	6,758,533	—	6,758,533	67.0%
Total	$7,811,543	$1,074,819	$2,148,012	$135,635	$11,170,009	($1,085,919)	$10,084,090	100.0%

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

December 31, 2022								
	REIT's Financial Statements		Equity Accounted Investments					
Operating Segment (in thousands of Canadian dollars)	Investment Properties	Properties Under Development	Investment Properties	Properties Under Development	REIT's Proportionate Share[1]	The Bow and 100 Wynford	Total	%
Residential	$2,691,961	$527,416	$1,185,383	$55,457	$4,460,217	$—	$4,460,217	41.4%
Industrial	1,468,147	344,233	20,604	19,824	1,852,808	—	1,852,808	17.2%
Office	3,843,157	9,129	—	—	3,852,286	(1,127,002)	2,725,284	25.3%
Retail	796,052	—	922,319	14,631	1,733,002	—	1,733,002	16.1%
Total	$8,799,317	$880,778	$2,128,306	$89,912	$11,898,313	($1,127,002)	$10,771,311	100.0%

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

December 31, 2022								
	REIT's Financial Statements		Equity Accounted Investments					
Geographic Location (in thousands of Canadian dollars)	Investment Properties	Properties Under Development	Investment Properties	Properties Under Development	REIT's Proportionate Share[1]	The Bow and 100 Wynford	Total	%
Ontario	$2,465,607	$344,233	$—	$19,824	$2,829,664	($116,367)	$2,713,297	25.2%
Alberta	1,427,477	—	—	—	1,427,477	(1,010,635)	416,842	3.9%
Other	552,760	9,128	—	—	561,888	—	561,888	5.2%
Canada	4,445,844	353,361	—	19,824	4,819,029	(1,127,002)	3,692,027	34.3%
United States	4,353,473	527,417	2,128,306	70,088	7,079,284	—	7,079,284	65.7%
Total	$8,799,317	$880,778	$2,128,306	$89,912	$11,898,313	($1,127,002)	$10,771,311	100.0%

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

VALUATION OF INVESTMENT PROPERTIES

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;

(ii) The direct capitalization method which calculates fair value by applying a capitalization rate to future cash flows based on stabilized net operating income; and

(iii) The comparable sales approach, which estimates fair value based on the market value per unit of measure which is established by recent sales activity in the same or similar markets.

During the year ended December 31, 2023, 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 per the REIT's Financial Statements represent 16.5% of the fair value of investment properties as at December 31, 2023 (year ended December 31, 2022 - 21.4%). External independent appraisals received throughout the year per the REIT's proportionate share (a non-GAAP measure, refer to the *"Non-GAAP Measures"* section of this MD&A) and excluding The Bow and 100 Wynford represent 27.4% of the fair value of investment properties as at December 31, 2023 (year ended December 31, 2022 - 29.7%).

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 weighted average capitalization rates disclosed below are reported by segment and geographic location at the REIT's proportionate share (a non-GAAP measure, refer to the *"Non-GAAP Measures"* section of this MD&A), including assets classified as held for sale which differs from the REIT's Financial Statements. The Bow and 100 Wynford have been excluded from the Canada Office and Total capitalization rates for both periods below as these properties were legally sold in October 2021 and August 2022, respectively.

December 31, 2023	**Residential**	**Industrial**	**Office**	**Retail**	**Total**
Canada	**—**	**5.24%**	**6.22%**	**6.33%**	**5.79%**
United States	**4.47%**	**8.49%**	**7.68%**	**6.54%**	**5.48%**
Total	**4.47%**	**5.30%**	**6.87%**	**6.49%**	**5.59%**

As at December 31, 2023, the weighted average capitalization rate for residential properties in the U.S. sun belt states was 5.00%, resulting in an overall weighted average capitalization rate of 4.47% for the residential portfolio.

As at December 31, 2023, the weighted average Canadian office capitalization rate was 6.22%, which was comprised of a 4.96% capitalization rate for 8 Canadian properties designated for future intensification and a 7.56% capitalization rate for 10 Canadian properties expected to be sold as part of H&R's plan to sell office properties.

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%

As at December 31, 2022, the weighted average capitalization rate for the properties in the U.S. sun belt states increased to 4.35%, resulting in an overall weighted average capitalization rate of 4.20% for the residential portfolio.

As at December 31, 2022, the weighted average Canadian office capitalization rate was 6.11%, which was comprised of a 4.83% capitalization rate for 8 Canadian properties designated for future intensification and a 7.13% capitalization rate for 12 Canadian properties expected to be sold as part of H&R's plan to sell office properties.

PROPERTIES UNDER DEVELOPMENT

Canadian Properties Under Development

The Canadian properties currently held for development are:

As at December 31, 2023				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[(6)]**	**Costs Remaining to Complete**	**Expected Yield on Budgeted Cost**	**Expected Completion Date**
Current Developments:[(1)]								
1965 Meadowvale Blvd., Mississauga, ON[(2)]	100.0%	187,290	7.5	$46,879	$42,333	$4,546	7.1%	Q1 2024
1925 Meadowvale Blvd., Mississauga, ON[(3)]	100.0%	149,510	8.0	38,682	33,793	4,889	6.7%	Q1 2024
		336,800	**15.5**	**85,561**	**76,126**	**9,435**		
Future Developments:[(4)]								
Industrial Lands (Remaining lands), Caledon, ON	100.0%		117.6	—	75,893	—		
3791 Kingsway, Burnaby, BC[(5)]	50.0%		0.3	—	11,030	—		
			117.9	**—**	**86,923**	**—**		
		336,800	**133.4**	**$85,561**	**$163,049**	**$9,435**		

(1) Current Developments are projects under active construction or anticipated to commence active construction in the next three months whereby the REIT is committed to completing the development.
(2) In February 2023, H&R entered into a lease agreement to fully lease 1965 Meadowvale Blvd. for a term of 10 years at market rents with annual contractual rental escalations.
(3) In March 2023, H&R entered into a lease agreement to fully lease 1925 Meadowvale Blvd. for a term of 12.5 years at market rents with annual contractual rental escalations.
(4) Future Developments include sites advancing through zoning by-law applications, approvals, legal obligations, and clearing environmental encumbrances. These sites may be shovel ready but still require financial commitments and are not anticipated to commence active construction in the next three months.
(5) 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.
(6) Excludes fair value adjustments to Canadian properties under development totalling $258.9 million as at December 31, 2023.

U.S. Properties Under Development

In April 2023, H&R acquired a 50% ownership interest in 27.0 acres of land in Orlando, FL ("West Town") for $18.4 million (U.S. $13.8 million) at H&R's ownership interest, which is expected to be developed into 541 residential rental units. The site is located in the Altamonte Springs submarket of Orlando and is close to Maitland, a large professional office submarket, as well as Cranes Roost Park, the Altamonte Mall and numerous retailers.

The REIT's U.S. development pipeline consists of the following: (i) two current residential developments and (ii) 14 land parcels held for future residential development:

As at December 31, 2023				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:[1]								
West Love, Dallas, TX	100.0%	5.4	413	$105,692	$69,256	$36,436	5.7%	Q3 2024
Midtown, Dallas, TX	100.0%	4.2	350	104,113	51,021	53,092	5.7%	Q4 2024
		9.6	**763**	**209,805**	**120,277**	**89,528**		
Future Developments:[2]								
The Cove, Jersey City, NJ	100.0%	12.4	2,840	—	177,502			
12 Remaining Future Developments	100.0%	107.8	4,559	—	182,640			
West Town, Orlando, FL	50.0%	13.5	271	—	14,171			
		133.7	**7,670**	**—**	**374,313**	**—**		
		143.3	**8,433**	**$209,805**	**$494,590**	**$89,528**		

(1) Current Developments are projects under active construction or anticipated to commence active construction in the next three months whereby the REIT is committed to completing the development.

(2) Future Developments include sites advancing through zoning by-law applications, approvals, legal obligations, and clearing environmental encumbrances. These sites may be shovel ready but still require financial commitments and are not anticipated to commence active construction in the next three months.

FUTURE INTENSIFICATION OPPORTUNITIES

As at December 31, 2023, H&R is advancing the following properties through the process of rezoning into their highest and best 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 Square Feet	Approval Status[3]	Municipal Approval Date
145 Wellington St. W.	Toronto, ON	100%	Residential	160,098	512	555,687	ZBA Approved & SPA Submitted	August 2022
310 Front St. W.	Toronto, ON	100%	Residential	122,486	578	541,784	ZBA Approved & SPA Submitted	August 2023
6900 Maritz Dr.	Mississauga, ON	100%	Industrial	104,689	—	122,413	SPA Approved (with conditions)	January 2024
69 Yonge St.	Toronto, ON	100%	Residential	88,006	125	135,000	ZBA & SPA Submitted	March 2024
53 & 55 Yonge St.	Toronto, ON	100%	Residential	171,758	511	552,925	ZBA & SPA Submitted	Q1 2024
200 Bouchard Blvd.	Dorval, QC	100%	Residential	437,157	850	990,000	Submission Pending	2024
3777 & 3791 Kingsway[4]	Burnaby, BC	50%	Residential	335,778	1,250	1,230,000	SPoD Submitted	2024
77 Union St.	Toronto, ON	100%	Residential	195,000	1,400	1,100,000	ZBA & SPA Submitted	2024
				1,614,972	5,226	5,227,809		

(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 Suitable Plan of Development is referred to as "SPoD" in the table above.

(4) 3777 & 3791 Kingsway figures for current square feet, anticipated residential units and anticipated commercial square feet have been shown at H&R's ownership interest.

In February 2023, H&R attended a settlement hearing with the Ontario Land Tribunal ("OLT") and received rezoning approval with conditions for 53 & 55 Yonge Street for a 66-storey mixed use tower, including approximately 511 residential units, 159,000 square feet of replacement office area and 13,000 square feet of retail area. Subsequently, H&R made re-submissions to clear the conditions set by the OLT. H&R expects to have rezoning approval in place by the end of Q1 2024.

In July 2023, the final report recommending approval of the rezoning application for 310 Front Street West was adopted by Toronto City Council. The statutory appeal period for the passing of the zoning by-law was completed in August 2023, and the rezoning came into force and became binding. The rezoning approval is for a 65-storey mixed use tower including, 578 residential units, approximately 119,000 square feet of replacement office area and approximately 2,000 square feet of retail area.

In Q1 2023, H&R entered into a lease amendment with its tenant at 6900 Maritz Drive in Mississauga, ON to terminate their lease in December 2023. The terms of the rental payments to December 2023 did not change. In October 2023, H&R submitted a Site Plan approval application for 6900 Maritz Drive to the City of Mississauga to replace the existing 104,689 square foot office building with a new 122,413 square foot industrial building. Demolition of the existing office building has commenced and Site Plan approval with conditions was received in January 2024. Construction is expected to commence in Spring 2024.

EQUITY ACCOUNTED INVESTMENTS

	------- Associates--------		Joint Ventures[1]	
(in thousands of Canadian dollars)	ECHO	Jackson Park		**Total[2]**
Investment properties	$857,982	$1,138,845	$151,185	**$2,148,012**
Properties under development	29,212	—	106,423	**135,635**
Other assets	17,668	1,905	2,293	**21,866**
Cash and cash equivalents	9,733	5,311	21,889	**36,933**
Debt	(342,410)	(654,336)	(101,093)	**(1,097,839)**
Accounts payable and accrued liabilities	(48,348)	(7,802)	(4,026)	**(60,176)**
Non-controlling interest	(19,419)	—	—	**(19,419)**
December 31, 2023	**$504,418**	**$483,923**	**$176,671**	**$1,165,012**
December 31, 2022	$537,106	$355,503	$167,659	$1,060,268

(1) Joint ventures include Slate Drive, one industrial property, Hercules Project, Shoreline, Central Pointe and Sunny Creek.
(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 33.1% 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, 2023 and November 30, 2022, respectively.

As at November 30, 2023, H&R's interest in ECHO consisted of 233 investment properties totalling approximately 2.8 million square feet and 13 properties under development. Giant Eagle, Inc., a supermarket chain in the United States, is ECHO's largest tenant with 195 locations totalling approximately 1.6 million square feet at H&R's ownership interest with an average lease term to maturity of 8.9 years. Giant Eagle represents approximately 55.6% of revenue earned by ECHO.

During the twelve months ended November 30, 2023, ECHO acquired eight properties under development for $6.8 million (U.S. $5.0 million), at H&R's ownership interest. During this period, ECHO sold two investment properties totalling 1,398 square feet for $0.4 million (U.S. $0.3 million) and had four ground leases expire which ECHO did not renew totalling 3,745 square feet, all at H&R's ownership interest. ECHO also transferred two properties under development to investment properties totalling 2,775 square feet for a total value of $2.9 million (U.S. $2.2 million), 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 2024.

One industrial property

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

Hercules Project

H&R has a 31.7% non-managing ownership interest in 24.1 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 $13.1 million (U.S. $10.0 million), at H&R's ownership interest. As at December 31, 2023, H&R's equity investment was approximately $20.7 million (U.S. $15.7 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 3.0 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.

The remaining land parcels totalling 21.1 acres are secured against a $4.9 million (U.S. $3.7 million) land loan at H&R's ownership interest. Future phases will be announced as further development information becomes available.

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 6,643 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.

Central Pointe

In September 2022, H&R acquired a non-managing 50% ownership interest in 8.4 acres of land in Santa Ana, CA for $34.7 million (U.S. $26.3 million) and obtained a variable rate land loan for $17.3 million (U.S. $13.1 million) for an 18-month term at H&R's ownership interest. The site is expected to consist of two buildings totalling 325 residential rental units and 319 residential rental units, respectively, as well as 15,131 square feet of retail space. 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.

Sunny Creek

In June 2023, H&R acquired a 33.3% non-managing ownership interest in 17.6 acres of land in Carlsbad, CA for $22.6 million (U.S. $17.0 million) at H&R's ownership interest. The site is located in Carlsbad, a coastal city in northwest San Diego County, approximately four miles from Carlsbad State Beach and downtown Carlsbad, and is close to major highways and business parks, including the headquarters for TaylorMade and Callaway. The site is expected to include an apartment project consisting of 227 residential rental units and a for sale townhome project comprising 130 units for sale.

Assets and Liabilities Classified as Held for Sale

As at December 31, 2023, H&R had one Canadian office property and a 50% interest in one Canadian industrial property classified as held for sale with an aggregate fair value of $293.2 million. As at December 31, 2022, H&R had one Canadian office property, a 50% interest in one Canadian office property and a 50% interest in one Canadian industrial property with an aggregate fair value of $294.0 million and liabilities of $6.3 million classified as held for sale.

Other Assets

(in thousands of Canadian dollars)	**December 31, 2023**	December 31, 2022
Mortgages receivable	**$166,077**	$169,190
Prepaid expenses and sundry assets	**70,482**	61,212
Accounts receivable - net of provision for expected credit loss of $3,556 (2022 - $4,946)	**5,905**	5,318
Restricted cash	**96,625**	27,444
Derivative instruments	**29,919**	38,161
	$369,008	$301,325

Restricted cash increased by approximately $69.2 million from approximately $27.4 million as at December 31, 2022 to approximately $96.6 million as at December 31, 2023, primarily due to proceeds from the sale of U.S. properties and proceeds on disposal of purchase option held in escrow for property exchanges under Section 1031 of the U.S. Internal Revenue Code.

DEBT

	December 31, 2023	December 31, 2022
Debt to total assets per the REIT's Financial Statements[1]	**34.2%**	34.4%
Debt to total assets at the REIT's proportionate share[1][2]	**44.0%**	44.0%
Unencumbered assets[3] (in thousands of Canadian dollars)	**$4,223,082**	$4,852,067
Unsecured debt[3] (in thousands of Canadian dollars)	**$1,953,440**	$2,296,668
Unencumbered asset to unsecured debt coverage ratio[3]	**2.16**	2.11
Debt to Adjusted EBITDA at the REIT's proportionate share[1][2][4]	**8.5**	9.6
Non-recourse mortgages to total mortgages ratio	**59.8%**	59.2%
Weighted average interest rate of debt[1]	**4.0%**	3.8%
Weighted average term to maturity of debt (in years)[1]	**2.5**	3.2
Weighted average interest rate of debt at the REIT's proportionate share[1][2]	**4.1%**	3.9%
Weighted average term to maturity of debt (in years) at the REIT's proportionate share[1][2]	**3.0**	3.8

(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 Breakdown

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

	December 31, 2023			December 31, 2022		
(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]
Mortgages payable	**$1,459,163**	**$825,152**	**$2,284,315**	$1,613,361	$859,167	$2,472,528
Debentures payable	**1,297,960**	**—**	**1,297,960**	1,546,668	—	1,546,668
Unsecured term loans	**625,000**	**—**	**625,000**	750,000	—	750,000
Lines of credit	**304,710**	**272,687**	**577,397**	12,500	278,043	290,543
	$3,686,833	**$1,097,839**	**$4,784,672**	$3,922,529	$1,137,210	$5,059,739

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

Debentures payable per the REIT's Financial Statements decreased by approximately $248.7 million from approximately $1,546.7 million as at December 31, 2022 to approximately $1,298.0 million as at December 31, 2023, primarily due to the REIT redeeming all of its $250.0 million outstanding 3.416% Series O Senior Debentures in January 2023.

Unsecured term loans per the REIT's Financial Statements decreased by $125.0 million from $750.0 million as at December 31, 2022 to $625.0 million as at December 31, 2023, primarily due to the REIT repaying a $125.0 million unsecured term loan in August 2023, originally scheduled to mature on November 30, 2024.

Lines of credit per the REIT's Financial Statements increased by $292.2 million from approximately $12.5 million as at December 31, 2022 to approximately $304.7 million as at December 31, 2023, primarily due to the REIT and CrestPSP securing a new $275.0 million non-revolving secured line of credit in March 2023, at the REIT's ownership interest, for a three year term. The REIT and CrestPSP terminated the previous revolving secured line of credit and H&R used these new proceeds to repay unsecured lines of credit.

Refer to the *"Liquidity and Capital Resources"* section of this MD&A for further information on H&R's debt breakdown.

Debt by Operating Segment

The following table discloses H&R's debt by operating segment:

	December 31, 2023			**December 31, 2022**		
(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]
Residential	**$955,964**	**$755,429**	**$1,711,393**	$1,071,711	$779,951	$1,851,662
Industrial	**531,782**	**—**	**531,782**	286,711	—	286,711
Office	**230,237**	**—**	**230,237**	249,185	—	249,185
Retail	**15,410**	**342,410**	**357,820**	18,254	357,259	375,513
Corporate	**1,953,440**	**—**	**1,953,440**	2,296,668	—	2,296,668
	$3,686,833	**$1,097,839**	**$4,784,672**	$3,922,529	$1,137,210	$5,059,739

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

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. Refer to the *"Non-GAAP Measures"* section of this MD&A.

	December 31 2023	December 31 2022
Debt per the REIT's Financial Statements	**$3,686,833**	$3,928,852
Debt - REIT's proportionate share of equity accounted investments	1,097,839	1,137,210
Debt at the REIT's proportionate share	**4,784,672**	5,066,062
Years ended December 31	**2023**	2022
Net income per the REIT's Financial Statements	**61,690**	844,823
Net income from equity accounted investments (within equity accounted investments)	(426)	(1,132)
Finance costs - operations	266,795	260,288
Fair value adjustments on financial instruments and real estate assets	363,547	(582,538)
(Gain) loss on sale of real estate assets, net of related costs	9,420	(7,493)
Income tax (recovery) expense	(30,484)	101,634
Non-controlling interest	1,254	967
Adjustments:		
The Bow and 100 Wynford non-cash rental income adjustments	(92,920)	(86,555)
Straight-lining of contractual rent	(12,100)	(6,890)
Fair value adjustment to unit-based compensation	(5,134)	2,172
Adjusted EBITDA at the REIT's proportionate share	**$561,642**	$525,276
Debt to Adjusted EBITDA at the REIT's proportionate share	**8.5**	9.6

Debt to Adjusted EBITDA at the REIT's proportionate share has decreased to 8.5x as at December 31, 2023 compared to 9.6x as at December 31, 2022, primarily due to the proceeds on disposal of purchase option as well as proceeds from property dispositions used to repay debt.

OTHER LIABILITIES

Exchangeable Units

As at December 31, 2023, certain of the REIT's subsidiaries had in aggregate 17,974,186 (December 31, 2022 - 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, 2023 was $9.90 (December 31, 2022 - $12.11) per Unit.

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, 2023	**17,974,186**	**$9.90**	**$177,944**
As at December 31, 2022	17,974,186	$12.11	$217,668

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 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 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 14 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 Ovintiv 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 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 statements of financial position in the REIT's Financial Statements:

	December 31, 2023			December 31
	The Bow	**100 Wynford**	**Total**	2022
Income producing property - fair value[(1)]	**$976,951**	**$108,968**	**$1,085,919**	$1,127,002
Deferred revenue - net of amortization of $75,314 (2022 - $36,742)	**838,861**	**108,810**	**947,671**	986,243

(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 (loss) as well as a reconciliation of the Bow and 100 Wynford's contribution to FFO and AFFO:

	Three months ended December 31			
	The Bow	**100 Wynford**	**2023**	2022
Rental income earned	**$3,938**	**$—**	**$3,938**	$3,709
Rental income earned - **non-cash**	**21,169**	**2,125**	**23,294**	23,091
Revenue reimbursement for property operating costs	**13,268**	**681**	**13,949**	12,513
Property operating costs	**(13,266)**	**(681)**	**(13,947)**	(12,624)
Net operating income	**25,109**	**2,125**	**27,234**	26,689
Accretion finance expense on deferred revenue - **non-cash**	**(13,139)**	**(275)**	**(13,414)**	(13,868)
Fair value adjustment on real estate assets - **non-cash**	**(9,040)**	**(1,863)**	**(10,903)**	(10,723)
Net income (loss)	**2,930**	**(13)**	**2,917**	2,098
Fair value adjustment on real estate assets	**9,040**	**1,863**	**10,903**	10,723
Non-cash rental income and accretion adjustment	**(8,030)**	**(1,850)**	**(9,880)**	(9,223)
FFO[1]	**3,940**	**—**	**3,940**	3,598
Capital expenditures	**—**	**(6)**	**(6)**	(626)
AFFO[1]	**$3,940**	**($6)**	**$3,934**	$2,972

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

	Year ended December 31			
	The Bow	**100 Wynford**	**2023**	2022
Rental income earned	**$15,656**	**$—**	**$15,656**	$20,401
Rental income earned - **non-cash**	**84,423**	**8,497**	**92,920**	86,555
Straight-lining of contractual rent	**—**	**—**	**—**	265
Revenue reimbursement for property operating costs	**50,646**	**2,780**	**53,426**	47,739
Property operating costs	**(50,790)**	**(2,813)**	**(53,603)**	(47,864)
Net operating income	**99,935**	**8,464**	**108,399**	107,096
Accretion finance expense on deferred revenue - **non-cash**	**(53,225)**	**(1,123)**	**(54,348)**	(57,389)
Fair value adjustment on real estate assets - **non-cash**	**(35,001)**	**(8,442)**	**(43,443)**	(37,429)
Net income (loss)	**11,709**	**(1,101)**	**10,608**	12,278
Fair value adjustment on real estate assets	**35,001**	**8,442**	**43,443**	37,429
Non-cash rental income and accretion adjustment	**(31,198)**	**(7,374)**	**(38,572)**	(29,166)
FFO[1]	**15,512**	**(33)**	**15,479**	20,541
Straight-lining of contractual rent	**—**	**—**	**—**	(265)
Capital expenditures	**—**	**(1,042)**	**(1,042)**	(3,349)
AFFO[1]	**$15,512**	**($1,075)**	**$14,437**	$16,927

(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, 2023 was $3.9 million and $15.5 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, 2023 was nil.

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 24.0% in 2023 (2022 - 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:

(in thousands of Canadian dollars)	**December 31 2023**	December 31 2022
Deferred tax assets:		
Net operating losses	**$93,622**	$84,420
Accounts payable and accrued liabilities	**2,732**	1,386
	96,354	85,806
Deferred tax liabilities:		
Investment properties	**362,581**	427,149
Equity accounted investments	**170,263**	141,705
Other assets	**724**	—
	533,568	568,854
Deferred tax liability	**($437,214)**	($483,048)

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 decreased by approximately $45.8 million from $483.0 million as at December 31, 2022 to $437.2 million as at December 31, 2023 primarily due to fair value adjustments on real estate assets and the weakening of the U.S. dollar.

Unitholders' Equity

Unitholders' equity decreased by $294.9 million from approximately $5,487.3 million as at December 31, 2022 to approximately $5,192.4 million as at December 31, 2023, primarily due to distributions to unitholders, other comprehensive loss and Units repurchased and cancelled. This was partially offset by net income during the year ended December 31, 2023.

NCIB

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.

During the year ended December 31, 2023 the REIT purchased and cancelled 4,147,200 Units at a weighted average price of $10.30 per Unit, for a total cost of $42.7 million, representing a 50.4% discount to NAV per Unit as at December 31, 2023 (a non-GAAP ratio, refer to the *"Non-GAAP Measures"* section of this MD&A).

During the year ended December 31, 2022, under a previous NCIB, 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 a 40.4% discount to NAV per Unit as at December 31, 2022 (a non-GAAP ratio, refer to the *"Non-GAAP Measures"* section of this MD&A).

Unitholders' Equity per Unit and NAV per Unit (in thousands except for per Unit amounts)	**December 31 2023**	December 31 2022
Unitholders' equity	**$5,192,375**	$5,487,287
Exchangeable units	**177,944**	217,668
Deferred tax liability	**437,214**	483,048
Total	**5,807,533**	6,188,003
Units outstanding	**261,868**	265,885
Exchangeable units outstanding	**17,974**	17,974
Total	**279,842**	283,859
Unitholders' equity per Unit(1)	**$19.83**	$20.64
NAV per Unit(2)	**$20.75**	$21.80

(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.

The repurchasing of Units under H&R's NCIB during the year ended December 31, 2023 had a $0.15 positive impact on both Unitholders' equity per Unit and NAV per Unit, respectively. Unitholders' equity per Unit and NAV per Unit, without accounting for any Units being repurchased during the year ended December 31, 2023, would have been $19.68 and $20.60, respectively. The repurchasing of Units under H&R's NCIB during the year ended December 31, 2022 had a $0.61 and $0.66 positive impact on Unitholders' equity per Unit and NAV per Unit, respectively. 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	
	2023	2022	**2023**	2022
For each U.S. $1.00	**$1.35 CAD**	$1.36 CAD	**$1.35 CAD**	$1.30 CAD

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

	Three months ended December 31, 2023			Three months ended December 31, 2022		
(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]
Rentals from investment properties	**$205,904**	**$38,439**	**$244,343**	$216,835	$37,471	$254,306
Property operating costs	**(58,544)**	**(10,459)**	**(69,003)**	(68,723)	(9,477)	(78,200)
Net operating income	**147,360**	**27,980**	**175,340**	148,112	27,994	176,106
Net income from equity accounted investments	**145,320**	**(145,292)**	**28**	53,473	(52,719)	754
Finance costs - operations	**(54,130)**	**(12,310)**	**(66,440)**	(55,625)	(11,736)	(67,361)
Finance income	**3,325**	**103**	**3,428**	3,204	60	3,264
Trust expenses	**(7,054)**	**(1,309)**	**(8,363)**	(11,012)	(1,100)	(12,112)
Fair value adjustment on financial instruments	**(43,606)**	**527**	**(43,079)**	(30,234)	481	(29,753)
Fair value adjustment on real estate assets	**(197,587)**	**131,522**	**(66,065)**	(224,480)	37,350	(187,130)
Loss on sale of real estate assets, net of related costs	**(1,119)**	**(501)**	**(1,620)**	(3,322)	(89)	(3,411)
Net income (loss) before income taxes and non-controlling interest	**(7,491)**	**720**	**(6,771)**	(119,884)	241	(119,643)
Income tax (expense) recovery	**(3,822)**	**(14)**	**(3,836)**	3,755	(18)	3,737
Net income (loss) before non-controlling interest	**(11,313)**	**706**	**(10,607)**	(116,129)	223	(115,906)
Non-controlling interest	**—**	**(706)**	**(706)**	—	(223)	(223)
Net loss	**(11,313)**	**—**	**(11,313)**	(116,129)	—	(116,129)
Other comprehensive loss:						
Items that are or may be reclassified subsequently to net loss	**(130,990)**	**—**	**(130,990)**	(71,875)	—	(71,875)
Total comprehensive loss attributable to unitholders	**($142,303)**	**$—**	**($142,303)**	($188,004)	$—	($188,004)

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

Net loss before income taxes and non-controlling interest per the REIT's Financial Statements decreased by $112.4 million for the three months ended December 31, 2023 compared to the respective 2022 period primarily due to fair value adjustments on real estate assets, including fair value adjustments on real estate assets within equity accounted investments.

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

	Year ended December 31, 2023			Year ended December 31, 2022		
(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]
Rentals from investment properties	**$847,146**	**$150,704**	**$997,850**	$834,640	$130,312	$964,952
Property operating costs	**(300,542)**	**(41,035)**	**(341,577)**	(299,691)	(38,230)	(337,921)
Net operating income	**546,604**	**109,669**	**656,273**	534,949	92,082	627,031
Net income from equity accounted investments	**145,459**	**(145,033)**	**426**	47,139	(46,007)	1,132
Finance costs - operations	**(218,152)**	**(48,643)**	**(266,795)**	(220,262)	(40,026)	(260,288)
Finance income	**13,849**	**341**	**14,190**	14,793	88	14,881
Proceeds on disposal of purchase option	**30,568**	**—**	**30,568**	—	—	—
Trust expenses	**(24,385)**	**(4,850)**	**(29,235)**	(22,121)	(3,242)	(25,363)
Fair value adjustment on financial instruments	**30,555**	**856**	**31,411**	38,349	2,910	41,259
Fair value adjustment on real estate assets	**(486,104)**	**91,146**	**(394,958)**	546,081	(4,802)	541,279
Gain (loss) on sale of real estate assets, net of related costs	**(7,247)**	**(2,173)**	**(9,420)**	7,332	161	7,493
Net income before income taxes and non-controlling interest	**31,147**	**1,313**	**32,460**	946,260	1,164	947,424
Income tax (expense) recovery	**30,543**	**(59)**	**30,484**	(101,437)	(197)	(101,634)
Net income before non-controlling interest	**61,690**	**1,254**	**62,944**	844,823	967	845,790
Non-controlling interest	**—**	**(1,254)**	**(1,254)**	—	(967)	(967)
Net income	**61,690**	**—**	**61,690**	844,823	—	844,823
Other comprehensive income (loss):						
Items that are or may be reclassified subsequently to net income	**(131,202)**	**—**	**(131,202)**	321,570	—	321,570
Total comprehensive income (loss) attributable to unitholders	**($69,512)**	**$—**	**($69,512)**	$1,166,393	$—	$1,166,393

(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 decreased by $915.1 million for the year ended December 31, 2023 compared to the respective 2022 period primarily due to fair value adjustments on real estate assets.

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, 2023. It excludes acquisitions, dispositions, and transfers of investment properties to or from properties under development during the two-year period ended December 31, 2023 (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.

	Three months ended December 31			Year ended December 31		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Rentals from investment properties	**$205,904**	$216,835	($10,931)	**$847,146**	$834,640	$12,506
Property operating costs	**(58,544)**	(68,723)	10,179	**(300,542)**	(299,691)	(851)
Net operating income per the REIT's Financial Statements	**147,360**	148,112	(752)	**546,604**	534,949	11,655
Adjusted for:						
Net operating income from equity accounted investments[1]	**27,980**	27,994	(14)	**109,669**	92,082	17,587
Straight-lining of contractual rent at the REIT's proportionate share[1]	**(2,623)**	(3,588)	965	**(12,100)**	(6,890)	(5,210)
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share[1]	**(14,946)**	(12,600)	(2,346)	**—**	—	—
Net operating income (cash basis) from Transactions at the REIT's proportionate share[1]	**(30,072)**	(38,504)	8,432	**(136,609)**	(159,794)	23,185
Same-Property net operating income (cash basis)[1]	**$127,699**	$121,414	$6,285	**$507,564**	$460,347	$47,217

(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 $0.8 million for the three months ended December 31, 2023 compared to the respective 2022 period, primarily due to the following: (i) properties sold; (ii) straight-lining of contractual rent further outlined below; and (iii) the weakening of the U.S. dollar. This was offset by Same-Property net operating income (cash basis) further outlined below and the impact of IFRIC 21. Net operating income per the REIT's Financial Statements increased by $11.7 million for the year ended December 31, 2023 compared to the respective 2022 period, primarily due to the following: (i) Same-Property net operating income (cash basis) further outlined below; (ii) straight-lining of contractual rent further outlined below; and (iii) the strengthening of the U.S. dollar. This was offset by properties sold.

Net operating income from equity accounted investments increased by $17.6 million for the year ended December 31, 2023 compared to the respective 2022 period, primarily due to rental growth at Jackson Park in Long Island City, NY and the strengthening of the U.S. dollar.

Straight-lining of contractual rent at the REIT's proportionate share decreased by $1.0 million for the three months ended December 31, 2023 compared to the respective 2022 period, primarily due to the 3777 Kingsway Lease Amendment, partially offset by the 6900 Maritz Lease Amendment. Straight-lining of contractual rent at the REIT's proportionate share increased by $5.2 million for the year ended December 31, 2023 compared to the respective 2022 period, primarily due to H&R entering into a lease amendment with Bell Canada in Q3 2022 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 has been recorded in each quarter since Q3 2022 and will continue to be recorded every quarter until the end of the lease. This was partially offset by the 3777 Kingsway Lease Amendment.

Same-Property net operating income (cash basis) increased by $6.3 million for the three months ended December 31, 2023 compared to the respective 2022 period, primarily due to strong rental growth and lower property operating costs from H&R's residential segment, as well as strong rental growth from H&R's industrial segment. Same-Property net operating income (cash basis) increased by $47.2 million for the year ended December 31, 2023 compared to the respective 2022 period, primarily due to the following: (i) strengthening of the U.S. dollar; (ii) strong rental growth from H&R's residential segment; (iii) strong rental growth and occupancy increases since January 1, 2022 from H&R's industrial segment; (iv) increase in occupancy at River Landing in Miami, FL; (v) higher lease termination fees earned; and (vi) bad debt recoveries in Q3 2023.

SEGMENT 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 consists of 24 residential properties in select markets in the United States. As at December 31, 2023, the portfolio comprised of 8,166 residential rental units, at H&R's ownership interest.

The Industrial segment consists of 68 industrial properties in Canada and two properties in the United States comprising 8.6 million square feet, at H&R's ownership interest, with an average lease term to maturity of 4.6 years as at December 31, 2023.

The Office segment, excluding the Bow and 100 Wynford, consists of 18 properties in Canada and three properties in select markets in the United States, aggregating 5.6 million square feet, at H&R's ownership interest, with an average lease term to maturity of 6.8 years as at December 31, 2023. The Office portfolio is leased on a long-term basis to creditworthy tenants, with 80.7% of office revenue from tenants with investment grade credit ratings. With long average lease terms resulting in only 7.6% of office square feet expiring during 2024, 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 34 properties in Canada which are mostly grocery-anchored and single tenant properties as well as four automotive-tenanted retail properties and one multi-tenant retail property in the United States. In addition, the Retail segment also holds a 33.1% interest in ECHO, a privately held real estate and development company consisting of 233 properties, which focuses on developing and owning a core portfolio of grocery-anchored shopping centres in the United States. In total, this segment includes 34 properties in Canada and 238 properties in the United States comprising 5.2 million square feet, at H&R's ownership interest, with an average lease term to maturity of 8.3 years as at December 31, 2023.

Further disclosure of segment information for net operating income can be found in note 21 of the REIT's Financial Statements.

Net Operating Income by Segment

	Net operating income						Occupancy	
	Three months ended December 31			Year ended December 31			As at December 31	
(in thousands of Canadian dollars)	**2023**	2022	% Change	**2023**	2022	% Change	**2023**	2022
Operating Segment:								
Residential	**$50,483**	$45,742	10.4%	**$165,164**	$140,288	17.7%	**94.3%**	94.5%
Industrial	**19,005**	16,791	13.2%	**75,054**	63,737	17.8%	**99.2%**	97.9%
Office	**78,169**	84,181	(7.1%)	**314,713**	321,235	(2.0%)	**95.9%**	98.6%
Retail	**27,683**	29,392	(5.8%)	**101,342**	101,771	(0.4%)	**96.2%**	95.3%
The REIT's proportionate share[1]	**175,340**	176,106	(0.4%)	**656,273**	627,031	4.7%	**96.5%**	96.6%
Less: equity accounted investments	**(27,980)**	(27,994)	(0.1%)	**(109,669)**	(92,082)	19.1%	**97.0%**	96.8%
The REIT's Financial Statements	**$147,360**	$148,112	(0.5%)	**$546,604**	$534,949	2.2%	**96.4%**	96.6%
Geographic Location:								
Canada	**76,443**	82,429	(7.3%)	**322,785**	327,429	(1.4%)	**97.7%**	98.1%
United States	**98,897**	93,677	5.6%	**333,488**	299,602	11.3%	**95.2%**	95.0%
The REIT's proportionate share[1]	**175,340**	176,106	(0.4%)	**656,273**	627,031	4.7%	**96.5%**	96.6%
Less: equity accounted investments	**(27,980)**	(27,994)	(0.1%)	**(109,669)**	(92,082)	19.1%	**97.0%**	96.8%
The REIT's Financial Statements	**$147,360**	$148,112	(0.5%)	**$546,604**	$534,949	2.2%	**96.4%**	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 negatively impacted by the weakening of the U.S. dollar for the three months ended December 31, 2023 compared to the respective 2022 period. Net operating income across all operating segments was positively impacted by the strengthening of the U.S. dollar for the year ended December 31, 2023 compared to the respective 2022 period. 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 10.4% and 17.7%, respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 periods, primarily due to strong rental growth.

Net operating income from industrial properties increased by 13.2% and 17.8%, respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 periods, primarily due to an increase in occupancy including the lease commencement of 140 Speirs Giffen Avenue and 34 Speirs Giffen Avenue in Caledon, ON which commenced in December 2022 and January 2023, respectively, as well as strong rental rate growth. Net operating income from industrial properties further increased for the year ended December 31, 2023 compared to the respective 2022 period, due to occupancy increases since January 1, 2022 and a $0.9 million lease termination fee received from a U.S. industrial tenant in Q2 2023.

Net operating income from office properties decreased by 7.1% and 2.0%, respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 periods, primarily due to properties sold. The decrease in net operating income from office properties for the year ended December 31, 2023 compared to the respective 2022 period was partially offset by the 200 Bouchard Lease Amendment, the 6900 Maritz Lease Termination Payment, and bad debt recoveries in Q3 2023.

Net operating income from retail properties decreased by 5.8% and 0.4%, respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 periods, primarily due to properties sold. The decrease in net operating income for the year ended December 31, 2023 compared to the respective 2022 period was partially offset by an increase in occupancy at River Landing in Miami, FL.

Same-Property Net Operating Income (Cash Basis) by Segment

The following segment 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:

	Same-Property net operating income (cash basis)[1]						**Occupancy (Same-Property)**	
	Three months ended December 31			Year ended December 31			As at December 31	
(in thousands of Canadian dollars)	**2023**	2022	% Change	**2023**	2022	% Change	**2023**	2022
Operating Segment:								
Residential	**$41,606**	$37,137	12.0%	**$161,901**	$136,341	18.7%	**94.6%**	94.9%
Industrial	**17,377**	15,839	9.7%	**68,130**	60,566	12.5%	**99.2%**	99.4%
Office	**44,536**	43,741	1.8%	**183,227**	174,224	5.2%	**96.0%**	98.9%
Retail	**24,180**	24,697	(2.1%)	**94,306**	89,216	5.7%	**96.2%**	95.0%
The REIT's proportionate share[1] (page 36)	**$127,699**	$121,414	5.2%	**$507,564**	$460,347	10.3%	**96.6%**	97.2%
Geographic Location:								
Ontario	**29,333**	29,486	(0.5%)	**125,751**	118,633	6.0%	**98.3%**	99.0%
Alberta	**7,613**	7,702	(1.2%)	**31,415**	30,328	3.6%	**98.6%**	98.6%
Other Canada	**8,280**	6,334	30.7%	**28,334**	25,362	11.7%	**94.2%**	99.3%
Total – Canada	**45,226**	43,522	3.9%	**185,500**	174,323	6.4%	**97.7%**	99.0%
United States	**82,473**	77,892	5.9%	**322,064**	286,024	12.6%	**95.4%**	95.2%
The REIT's proportionate share[1] (page 36)	**$127,699**	$121,414	5.2%	**$507,564**	$460,347	10.3%	**96.6%**	97.2%
United States in U.S. dollars:								
Residential	**30,819**	27,374	12.6%	**119,927**	104,878	14.3%	**94.6%**	94.9%
Industrial	**447**	416	7.5%	**2,394**	1,641	45.9%	**100.0%**	100.0%
Office	**16,083**	15,671	2.6%	**63,518**	62,552	1.5%	**100.0%**	100.0%
Retail	**13,742**	13,954	(1.5%)	**52,727**	50,947	3.5%	**94.9%**	93.2%
U.S. total in U.S. dollars	**$61,091**	$57,415	6.4%	**$238,566**	$220,018	8.4%	**95.4%**	95.2%

(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 negatively impacted by the weakening of the U.S. dollar for the three months ended December 31, 2023 compared to the respective 2022 period. Same-Property net operating income (cash basis) across all operating segments was positively impacted by the strengthening of the U.S. dollar for the year ended December 31, 2023 compared to the respective 2022 period. 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 12.6% for the three months ended December 31, 2023 compared to the respective 2022 period, primarily due to strong rental growth of 4.1% and a decrease in property operating costs of 6.4%. The decrease in property operating costs was primarily a result of an over-accrual of realty taxes adjusted in Q4 2023 upon receipt of final 2023 tax bills and lower bad debt expenses. Same-Property net operating income (cash basis) from residential properties in U.S. dollars increased by 14.3% for the year ended December 31, 2023 compared to the respective 2022 period, primarily due to strong rental growth of 9.3%, partially offset by an increase in property operating costs of 2.9%.

Same-Property net operating income (cash basis) from industrial properties increased by 9.7% and 12.5%, respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 periods, primarily due to strong rental rate growth. Same-Property net operating income (cash basis) from industrial properties further increased for the year ended December 31, 2023 compared to the respective 2022 period, due to occupancy increases since January 1, 2022 and a $0.9 million lease termination fee received from a U.S. industrial tenant in Q2 2023.

Same-Property net operating income (cash basis) from office properties increased by 1.8% and 5.2%, respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 periods, primarily due to higher lease termination fees earned and contractual rental escalations, partially offset by a decrease in occupancy. Same-Property net operating income (cash basis) from office properties further increased for the year ended December 31, 2023 compared to the respective 2022 period due to bad debt recoveries in Q3 2023.

Same-Property net operating income (cash basis) from retail properties decreased by 2.1% for the three months ended December 31, 2023 compared to the respective 2022 period, primarily due to lower lease termination fees received from Echo. Same-Property net operating income (cash basis) from retail properties increased by 5.7% for the year ended December 31, 2023 compared to the respective 2022 period, primarily due to an increase in occupancy at River Landing in Miami, FL, partially offset by the decrease in lease termination fees noted above.

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:

	Three months ended December 31		Year ended December 31	
(in thousands of Canadian dollars)	**2023**	2022	**2023**	2022
Net income from equity accounted investments[1]	**$145,320**	$53,473	**$145,459**	$47,139
Realty taxes in accordance with IFRIC 21	**(1,184)**	(1,316)	**—**	—
Fair value adjustments on financial instruments and real estate assets	**(132,049)**	(37,831)	**(92,002)**	1,892
(Gain) loss on sale of real estate assets, net of related costs	**501**	89	**2,173**	(161)
Gain on sale of real estate assets within ECHO's equity accounted investments	**—**	(627)	**—**	(627)
Notional interest capitalization[2]	**—**	—	**—**	960
FFO from equity accounted investments[1]	**12,588**	13,788	**55,630**	49,203
Straight-lining of contractual rent	**(170)**	(308)	**(696)**	(378)
Rent amortization of tenant inducements	**268**	285	**1,104**	1,087
Capital expenditures	**(894)**	(1,229)	**(3,861)**	(4,296)
Leasing expenses and tenant inducements	**(568)**	(1,052)	**(1,759)**	(2,089)
AFFO from equity accounted investments[1]	**$11,224**	$11,484	**$50,418**	$43,527

(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 increased by $91.8 million and $98.3 million, respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 periods, primarily due to fair value adjustments on real estate assets.

FFO from equity accounted investments increased by $6.4 million for the year ended December 31, 2023 compared to the respective 2022 period, primarily due to rental growth at Jackson Park in Long Island City, NY.

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	Three months ended December 31			Year ended December 31		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Finance costs – operations:						
Contractual interest on mortgages payable	**($15,247)**	($16,141)	$894	**($62,024)**	($67,506)	$5,482
Contractual interest on debentures payable	**(10,899)**	(13,052)	2,153	**(43,778)**	(51,780)	8,002
Contractual interest on unsecured term loans	**(6,236)**	(5,508)	(728)	**(28,489)**	(18,969)	(9,520)
Bank interest and charges on lines of credit	**(5,319)**	(3,348)	(1,971)	**(20,266)**	(10,950)	(9,316)
Effective interest rate accretion	**(1,204)**	(1,052)	(152)	**(4,638)**	(4,207)	(431)
Accretion finance expense on deferred revenue	**(13,414)**	(13,868)	454	**(54,348)**	(57,389)	3,041
Exchangeable unit distributions	**(4,494)**	(3,368)	(1,126)	**(12,582)**	(10,692)	(1,890)
	(56,813)	(56,337)	(476)	**(226,125)**	(221,493)	(4,632)
Capitalized interest	**2,683**	712	1,971	**7,973**	1,231	6,742
	(54,130)	(55,625)	1,495	**(218,152)**	(220,262)	2,110
Finance income	**3,325**	3,204	121	**13,849**	14,793	(944)
Fair value adjustment on financial instruments	**(43,606)**	(30,234)	(13,372)	**30,555**	38,349	(7,794)
	($94,411)	($82,655)	($11,756)	**($173,748)**	($167,120)	($6,628)

The decrease in contractual interest on mortgages payable of $0.9 million and $5.5 million, respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 periods is primarily due to mortgages repaid.

The decrease in contractual interest on debentures payable of $2.2 million and $8.0 million, respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 periods is primarily due to the repayment of the $250.0 million Series O Senior Debentures in January 2023.

The increase in contractual interest on unsecured term loans of $0.7 million and $9.5 million, respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 periods is primarily due to H&R obtaining two new $125.0 million unsecured term loans in November 2022, of which one was repaid in August 2023 prior to the original maturity date of November 30, 2024.

The increase in bank interest and charges on lines of credit of $2.0 million and $9.3 million respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 periods is primarily due to H&R obtaining a new $275.0 million non-revolving secured credit facility in March 2023 as well as rising interest rates, partially offset by lower borrowings on H&R's revolving unsecured operating lines of credit.

The accretion finance expense on deferred revenue for all periods noted above 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 *"Other Liabilities - Deferred Revenue"* section of this MD&A for further information on the Bow and 100 Wynford sale transactions.

The increase in exchangeable unit distributions of $1.1 million and $1.9 million respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 periods is primarily due to a special cash distribution of $0.10 per Unit declared in December 2023 compared to $0.05 per Unit declared in December 2022 as well as monthly cash distributions in aggregate of $0.60 per Unit for year ended December 31, 2023 compared to $0.54 per Unit for the year ended December 31, 2022.

The increase in capitalized interest of $2.0 million and $6.7 million, respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 periods is primarily due to two U.S. residential developments and two Canadian industrial developments currently under construction.

The fair value adjustment on financial instruments of ($43.6) million and $30.6 million, respectively, for the three months and year ended December 31, 2023 is due to: (i) the unrealized gain (loss) on fair value of exchangeable units of ($12.0) million and $39.7 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 loss on derivative instruments of ($31.6) million and ($9.2) million, respectively, which is further described in the *"Derivative Instruments"* section of this MD&A.

Proceeds on disposal of purchase option	Three months ended December 31			Year ended December 31		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Proceeds on disposal of purchase option	**$—**	$—	$—	**$30,568**	$—	$30,568

H&R had a mortgage receivable of approximately $37.2 million (U.S. $27.6 million) secured against industrial land in North Las Vegas, NV. In addition, H&R had an option to purchase the land. H&R sold its option to purchase the land and received repayment of its mortgage receivable from the borrower. The combined proceeds from the repayment of the mortgage receivable and the sale of the option amounted to $67.8 million (U.S. $50.2 million), which were received in August 2023. As a result, H&R recorded $30.6 million (U.S. $22.6 million) as proceeds on disposal of purchase option.

Trust expenses	Three months ended December 31			Year ended December 31		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
General expenses	**($8,473)**	($8,310)	($163)	**($38,485)**	($28,655)	($9,830)
Third party property management fees earned	**3,102**	4,444	(1,342)	**14,184**	13,299	885
Unit-based compensation expense	**(1,154)**	(670)	(484)	**(5,218)**	(4,593)	(625)
Fair value adjustment to unit-based compensation	**(529)**	(6,476)	5,947	**5,134**	(2,172)	7,306
Trust expenses	**($7,054)**	($11,012)	$3,958	**($24,385)**	($22,121)	($2,264)

General expenses increased by $9.8 million for the year ended December 31, 2023 compared to the respective 2022 period, primarily due to $4.3 million relating to the Support Agreement with K2 and severance costs incurred in Q2 2023.

In April 2023, H&R entered into a support agreement (the "Support Agreement") with the K2 Principal Fund L.P. and K2 & Associates Investment Management Inc. (collectively, "K2"). Among other stipulations in the Support Agreement, K2 withdrew its four nominees for election at the meeting of unitholders on June 15, 2023 ("Unitholder Meeting"). K2 also agreed with H&R to support the election of two additional, mutually agreed upon, independent trustees to H&R's Board, Lindsay Brand and Leonard Abramsky, with the size of the Board increasing by two to 10 trustees, and also agreed to vote in favour of the balance of the trustees slated for re-election. Mr. Abramsky and Ms. Brand were elected to the REIT's Board at the Unitholder Meeting.

In May 2023, Philippe Lapointe stepped down as President of H&R and as an officer of H&R's subsidiary, Lantower Residential. Emily Watson, Lantower's Chief Operating Officer, was appointed to lead the Lantower Residential division.

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.

Fair Value Adjustment on Real Estate Assets	Three months ended December 31			Year ended December 31		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Operating Segment:						
Residential	**($278)**	$61,982	($62,260)	**($122,306)**	$503,851	($626,157)
Industrial	**2,724**	11,951	(9,227)	**10,841**	182,797	(171,956)
Office	**(46,091)**	(193,873)	147,782	**(256,494)**	(349,595)	93,101
Retail	**(3,110)**	(67,190)	64,080	**(45,689)**	(90,336)	44,647
Land and properties under development	**(19,310)**	—	(19,310)	**18,690**	294,562	(275,872)
Fair value adjustment on real estate assets per the REIT's proportionate share[1]	**(66,065)**	(187,130)	121,065	**(394,958)**	541,279	(936,237)
Less: equity accounted investments	**(131,522)**	(37,350)	(94,172)	**(91,146)**	4,802	(95,948)
Fair value adjustment on real estate assets per the REIT's Financial Statements	**($197,587)**	($224,480)	$26,893	**($486,104)**	$546,081	($1,032,185)

(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.

Refer to the *"Valuation of Investment Properties"* section of this MD&A for further disclosure on the REIT's capitalization rates.

Gain (loss) on Sale of Real Estate Assets, Net of Related Costs	Three months ended December 31			Year ended December 31		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Gain (loss) on sale of real estate assets, net of related costs	**($1,119)**	($3,322)	$2,203	**($7,247)**	$7,332	($14,579)

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

During the year ended December 31, 2023, the REIT sold one Canadian office property, two U.S. office properties, a 50% interest in one Canadian office property, four Canadian retail properties, one U.S. retail property, one U.S. industrial property and a 50% interest in three Canadian industrial properties and recognized a loss on sale of real estate assets, net of related costs of ($7.2) million. During the year ended December 31, 2022, the REIT sold two Canadian office properties, two Canadian retail properties, 10 U.S. retail properties, a 50% interest in one Canadian industrial property and one U.S. residential property and recognized a gain on sale of real estate assets, net of related costs of $7.3 million.

Income tax (Expense) Recovery	Three months ended December 31			Year ended December 31		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Income tax computed at the Canadian statutory rate of nil applicable to H&R for 2023 and 2022	**$—**	$—	$—	**$—**	$—	$—
Current U.S. income tax expense	**(245)**	(341)	96	**(1,802)**	(1,329)	(473)
Deferred income tax (expense) recovery applicable to U.S. Holdco	**(3,577)**	4,096	(7,673)	**32,345**	(100,108)	132,453
Income tax (expense) recovery in the determination of net income (loss)	**($3,822)**	$3,755	($7,577)	**$30,543**	($101,437)	$131,980

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 ($7.7) million and $132.5 million, respectively, for the three months and year ended December 31, 2023 compared to the respective 2022 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, 2023, H&R had net deferred tax liabilities of $437.2 million (December 31, 2022 - $483.0 million), primarily related to taxable temporary differences between the tax and accounting bases of U.S. real estate assets. Refer to the *"Deferred Tax Liability"* section of this MD&A for further information.

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

	Three months ended December 31		Year ended December 31	
(in thousands of Canadian dollars except per Unit amounts)	**2023**	2022	**2023**	2022
Net income (loss) per the REIT's Financial Statements	**($11,313)**	($116,129)	**$61,690**	$844,823
Realty taxes in accordance with IFRIC 21	**(13,762)**	(11,284)	**—**	—
FFO adjustments from equity accounted investments (page 40)	**(132,732)**	(39,685)	**(89,829)**	2,064
Exchangeable unit distributions	**4,494**	3,368	**12,582**	10,692
Fair value adjustments on financial instruments and real estate assets	**241,193**	254,714	**455,549**	(584,430)
Fair value adjustment to unit-based compensation	**529**	6,476	**(5,134)**	2,172
(Gain) loss on sale of real estate assets, net of related costs	**1,119**	3,322	**7,247**	(7,332)
Deferred income tax expense (recoveries) applicable to U.S. Holdco	**3,577**	(4,096)	**(32,345)**	100,108
Incremental leasing costs	**425**	411	**2,163**	2,252
The Bow and 100 Wynford non-cash rental income and accretion adjustments	**(9,880)**	(9,223)	**(38,572)**	(29,166)
FFO[1]	**$83,650**	$87,874	**$373,351**	$341,183
Straight-lining of contractual rent	**(2,453)**	(3,280)	**(11,404)**	(6,512)
Rent amortization of tenant inducements	**1,130**	1,209	**4,514**	4,691
Capital expenditures	**(10,881)**	(15,731)	**(41,168)**	(35,582)
Leasing expenses and tenant inducements	**(980)**	(4,874)	**(4,747)**	(8,516)
Incremental leasing costs	**(425)**	(411)	**(2,163)**	(2,252)
AFFO adjustments from equity accounted investments (page 40)	**(1,364)**	(2,304)	**(5,212)**	(5,676)
AFFO[1]	**$68,677**	$62,483	**$313,171**	$287,336
Basic and diluted weighted average number of Units and exchangeable units (in thousands of Units)[2]	**279,842**	283,859	**281,815**	290,782
FFO per basic and diluted Unit[3]	**$0.299**	$0.310	**$1.325**	$1.173
AFFO per basic and diluted Unit[3]	**$0.245**	$0.220	**$1.111**	$0.988
Cash Distributions per Unit	**$0.250**	$0.188	**$0.700**	$0.590
Payout ratio as a % of FFO[3]	**83.6%**	60.6%	**52.8%**	50.3%
Payout ratio as a % of AFFO[3]	**102.0%**	85.5%	**63.0%**	59.7%

(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, 2023, included in the weighted average and diluted weighted average number of Units are exchangeable units of 17,974,186. 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.
(3) These are non-GAAP ratios. Refer to the *"Non-GAAP Measures"* section of this MD&A.

Included in FFO and AFFO for the year ended December 31, 2023 are: (i) $30.6 million, equating to $0.108 per Unit relating to the proceeds on disposal of purchase option; and (ii) $4.3 million, equating to $0.015 per Unit, relating to the Support Agreement with K2 and severance costs.

FFO decreased by $4.2 million for the three months ended December 31, 2023 compared to the respective 2022 period, primarily due to a decrease in net operating income and higher trust expenses (when excluding the fair value adjustment to unit-based compensation) partially offset by lower finance costs. FFO increased by $32.2 million for the year ended December 31, 2023 compared to the respective 2022 period, primarily due to the proceeds on disposal of purchase option and an increase in net operating income partially offset by higher finance costs and trust expenses.

AFFO increased by $6.2 million for the three months ended December 31, 2023 compared to the respective 2022 period, primarily due to lower capital expenditures, leasing expenses and tenant inducements, partially offset by the decrease in FFO noted above. AFFO increased by $25.8 million for the year ended December 31, 2023 compared to the respective 2022 period, primarily due to the increase in FFO noted above, partially offset by the AFFO adjustment to exclude straight-lining of contractual rent which reduced the overall increase in net operating income.

Included in FFO are the following items at the REIT's proportionate share (a non-GAAP measure, refer to the *"Non-GAAP Measures"* section of this MD&A) which can be a source of variances between periods:

	Three months ended December 31			Year ended December 31		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Lease termination fees	**$1,899**	$314	$1,585	**$6,239**	$2,630	$3,609
Adjustment to straight-lining of contractual rent	**(866)**	222	(1,088)	**(1,805)**	614	(2,419)
Bad debt expense	**(1,844)**	(2,789)	945	**(2,699)**	(4,866)	2,167
Proceeds on disposal of purchase option	**—**	—	—	**30,568**	—	30,568
Costs incurred for abandoned transactions	**(71)**	(316)	245	**(71)**	(316)	245
Support Agreement with K2 and severance costs	**—**	—	—	**(4,255)**	—	(4,255)
	($882)	($2,569)	$1,687	**$27,977**	($1,938)	$29,915

Excluding the above items, FFO would have been $84.5 million for the three months ended December 31, 2023 (December 31, 2022 - $90.4 million) and $0.302 per basic and diluted Unit (December 31, 2022 - $0.319 per basic and diluted Unit). For the year ended December 31, 2023, FFO would have been $345.4 million (December 31, 2022 - $343.1 million) and $1.226 per basic and diluted Unit (December 31, 2022 - $1.180 per basic and diluted 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:

	Three months ended December 31			Year ended December 31		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Residential:						
Capital expenditures	**$5,190**	$9,751	($4,561)	**$26,145**	$23,871	$2,274
Industrial:						
Capital expenditures	**970**	2,014	(1,044)	**4,563**	2,441	2,122
Leasing expenses and tenant inducements	**295**	4,820	(4,525)	**3,786**	6,476	(2,690)
Office:						
Capital expenditures	**4,800**	4,143	657	**11,059**	9,625	1,434
Leasing expenses and tenant inducements	**289**	54	235	**976**	1,374	(398)
Retail:						
Capital expenditures	**815**	1,052	(237)	**3,262**	3,941	(679)
Leasing expenses and tenant inducements	**964**	1,052	(88)	**1,744**	2,755	(1,011)
Total at the REIT's proportionate share[(1)]	**13,323**	22,886	(9,563)	**51,535**	50,483	1,052
Less: equity accounted investments	**(1,462)**	(2,281)	819	**(5,620)**	(6,385)	765
Total per the REIT's Financial Statements[(2)]	**$11,861**	$20,605	($8,744)	**$45,915**	$44,098	$1,817

(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, 2023 included the following: (i) $1.4 million and $6.1 million, respectively, relating to capital turn expenses across all properties including painting, floor replacements and HVAC replacements; (ii) $0.7 million and $5.3 million, respectively, relating to revenue enhancing projects such as private yards and washers and dryers; and value-add repositioning initiatives undertaken on two of H&R's oldest residential rental communities, including unit upgrades; and (iii) $3.1 million and $14.7 million, respectively, relating to asset preservation projects including landscaping, safety and liability, a roof replacement, and clubhouse improvements.

Leasing expenses and tenant inducements for the year ended December 31, 2023 included $1.2 million in leasing expenses relating to a new 10-year lease at an Oakville, ON industrial property.

Capital expenditures from the Office segment for the three months and year ended December 31, 2023 included the following: (i) $2.0 million and $3.2 million, respectively, relating to a building automation system replacement at a Houston, TX office property; (ii) $0.4 million and $2.2 million, respectively, relating to refurbishments of all washrooms and a generator controls retrofit at a Calgary, AB office property; and (iii) $0.7 million in Q4 2023 relating to a new generator and electrical panel at a Toronto, 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 December 31 2023**	**Year ended December 31 2023**	Year ended December 31 2022	Year ended December 31 2021
Cash provided by operations	**$52,966**	**$294,625**	$255,054	$452,107
Net income (loss)	**(11,313)**	**61,690**	844,823	597,907
Distributions	**65,467**	**184,372**	159,785	227,312
(Shortfall) excess cash provided by operations over total distributions	**(12,501)**	**110,253**	95,269	224,795
Excess (shortfall) of net income (loss) over total distributions	**(76,780)**	**(122,682)**	685,038	370,595

Cash provided by operations exceeded distributions for the years ended December 31, 2023, 2022 and 2021. Distributions exceeded cash provided by operations by $12.5 million for the three months ended December 31, 2023, which did not represent a return of capital but rather was primarily due to the $0.10 per Unit special cash distribution to unitholders of record on December 29, 2023. The specific source of the excess distribution was funded by debt. Distributions exceeded net income (loss) for the three months and year ended December 31, 2023 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 distributions.

Major Cash Flow Components

	Three months ended December 31			Year ended December 31		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Cash and cash equivalents, beginning of period	**$145,871**	$65,809	$80,062	**$76,887**	$124,141	($47,254)
Cash flows from operations	**52,966**	74,741	(21,775)	**294,625**	255,054	39,571
Cash flows (used for) from investing	**(37,608)**	22,774	(60,382)	**112,862**	225,954	(113,092)
Cash flows used for financing	**(97,118)**	(86,437)	(10,681)	**(420,263)**	(528,262)	107,999
Cash and cash equivalents, end of year	**$64,111**	$76,887	($12,776)	**$64,111**	$76,887	($12,776)

Cash flows from operations decreased by $21.8 million for the three months ended December 31, 2023 compared to the respective 2022 period, primarily due to non-cash working capital. Cash flows from operations increased $39.6 million for the year ended December 31, 2023 compared to the respective 2022 period, primarily due to the proceeds on disposal of purchase option and non-cash working capital.

Cash flows (used for) from investing decreased by approximately $60.4 million for the three months ended December 31, 2023 compared to the respective 2022 period, primarily due to cash released from escrow relating to Section 1031 property exchanges in Q4 2022 compared to cash held in escrow relating to Section 1031 property exchanges in Q4 2023 as well as a mortgage receivable repayment in Q4 2022. This was partially offset by cash spent on two acquisitions in Q4 2022. Cash flows (used for) from investing decreased by approximately $113.1 million for the year ended December 31, 2023 compared to the respective 2022 period, primarily due to the following: (i) additional cash spent on properties currently under construction; (ii) additional cash held in escrow relating to Section 1031 property exchanges; (iii) lower cash distributions from equity accounted investments, mainly as a result of the sale of the Pearl in Q1 2022; and (iv) cash received from the sale of Primaris REIT units in Q1 2022. The decrease in cash flows (used for) from investing was partially offset by less cash spent on acquisitions of real estate assets.

Cash flows used for financing decreased by approximately $10.7 million for the three months ended December 31, 2023 compared to the respective 2022 period, primarily due to higher debt repayments, net of new debt. Cash flows used for financing increased by approximately $108.0 million for the year ended December 31, 2023 compared to the respective 2022 period, primarily due to less cash used for Unit repurchases, partially offset by higher debt repayments, net of new debt.

Funding of Future Commitments and Debt Profile

As at December 31, 2023, H&R had cash and cash equivalents of $64.1 million, $886.5 million available under its unused lines of credit and an unencumbered property pool of approximately $4.2 billion.

The following summarizes the estimated loan to value ratios on investment properties and properties under development 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 of Real Estate Assets ($000's)	Loan to Value
2024[1]	6	$163,767	3.2%	$641,752	26%
2025	8	106,446	3.9%	263,660	40%
2026	4	27,804	5.0%	105,950	26%
2027	10	420,751	4.2%	1,139,841	37%
2028	12	476,258	4.1%	1,058,059	45%
	40	$1,195,026	4.0%	$3,209,262	37%

(1) 2024 includes two properties that were classified as held for sale as at December 31, 2023 with an aggregate fair value of $293.2 million and mortgage debt due on maturity totalling $84.6 million. These mortgages are expected to be repaid prior to the closing of each respective sale.

The mortgages outstanding as at December 31, 2023 bear interest at a weighted average rate of 4.0% (December 31, 2022 - 4.0%) and mature between 2024 and 2030 (December 31, 2022 – mature between 2023 and 2032). The weighted average term to maturity of the REIT's mortgages is 3.5 years (December 31, 2022 - 4.6 years). As at December 31, 2023, the non-recourse mortgages to total mortgages ratio was 59.8% (December 31, 2022 - 59.2%).

Unsecured Senior Debentures (in thousands of Canadian Dollars)	Maturity	Contractual Interest Rate	Effective Interest Rate	Principal Amount	**December 31 2023** Carrying Value	December 31 2022 Carrying Value
Senior Debentures						
Series O Senior Debentures	January 23, 2023[1]	3.42%	3.44%	$—	**$—**	$249,980
Series N Senior Debentures	January 30, 2024[2]	3.37%	3.45%	350,000	**349,965**	349,548
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	**399,311**	398,892
Series R Senior Debentures	June 2, 2026	2.91%	3.00%	250,000	**249,443**	249,229
Series S Senior Debentures	February 19, 2027	2.63%	2.72%	300,000	**299,241**	299,019
		3.33%	3.42%	$1,300,000	**$1,297,960**	$1,546,668

(1) In January 2023, the REIT repaid all of its outstanding Series O senior debentures upon maturity for a cash payment of $250.0 million.
(2) In January 2024, the REIT repaid all of its outstanding Series N senior debentures upon maturity for a cash payment of $350.0 million.

Unsecured Term Loans (in thousands of Canadian Dollars)	Maturity Date	**December 31 2023**	December 31 2022
H&R unsecured term loan #1[1]		**$—**	$125,000
H&R unsecured term loan #2[2]	March 7, 2025	**250,000**	250,000
H&R unsecured term loan #3[3]	November 30, 2025	**125,000**	125,000
H&R unsecured term loan #4[4]	January 6, 2026	**250,000**	250,000
		$625,000	$750,000

(1) In August 2023, the REIT repaid all of this unsecured term loan of $125.0 million, prior to the original maturity date of November 30, 2024.
(2) The REIT entered into an interest rate swap to fix the interest rate at 3.42% per annum. The swap matures on May 7, 2030.
(3) 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.
(4) 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.

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, 2024	$150,000	$—	$—	$150,000
H&R revolving unsecured line of credit	December 14, 2027	750,000	(30,480)	(1,873)	717,647
H&R revolving unsecured letter of credit facility		60,000	—	(41,145)	18,855
Sub-total		960,000	(30,480)	(43,018)	886,502
Non-revolving secured operating line of credit[1]					
H&R and CrestPSP non-revolving secured line of credit	March 14, 2026	274,230	(274,230)	—	—
December 31, 2023		**$1,234,230**	**($304,710)**	**($43,018)**	**$886,502**
December 31, 2022		$985,000	($12,500)	($42,148)	$930,352

(1) Secured by certain investment properties.

The lines of credit can be drawn in either Canadian or U.S. dollars and bear interest at a rate approximating the prime rate of a Canadian chartered bank. Included in lines of credit as at December 31, 2023 are U.S. dollar denominated amounts of $14.0 million (December 31, 2022 - nil). The Canadian equivalent of these amounts are $18.5 million (December 31, 2022 - nil).

Contractual Obligations

The following is a summary as at December 31, 2023 of material contractual obligations including payments due for the next five years and thereafter:

	Payments Due by Period					
Contractual Obligations[1] **(in thousands of Canadian dollars)**	2024	2025	2026	2027-2028	2029 and thereafter	Total
Mortgages payable[2][3]	$203,806	$139,694	$62,735	$927,853	$131,539	$1,465,627
Senior debentures[4]	350,000	400,000	250,000	300,000	—	1,300,000
Unsecured term loans	—	375,000	250,000	—	—	625,000
Lines of credit	—	—	274,230	30,480	—	304,710
Lease liability[5]	1,227	1,252	1,277	2,631	179,976	186,363
Committed Developments[6]	127,612	—	—	—	—	127,612
Total contractual obligations	$682,645	$915,946	$838,242	$1,260,964	$311,515	$4,009,312

(1) The amounts in the above table are the principal amounts due under the contractual agreements.
(2) Non-recourse mortgages to total mortgages ratio is 59.8%.
(3) Mortgages payable due in 2024 includes two mortgages totalling $85.4 million secured against two properties that were classified as held for sale as at December 31, 2023 with an aggregate fair value of $293.2 million. These mortgages are expected to be repaid prior to the closing of each respective sale.
(4) In January 2024, the REIT repaid all of its outstanding Series N senior debentures upon maturity for a cash payment of $350.0 million.
(5) Corresponds to right-of-use assets in leasehold interests. In January 2024, the REIT acquired the right-of-use assets and was released from the corresponding lease liabilities.
(6) Committed Developments includes West Love, Midtown, 1965 Meadowvale Blvd. and 1925 Meadowvale Blvd. Refer to the *"Properties Under Development"* section of the MD&A for further information on each of these developments.

Capital Resources

As at December 31, 2023, H&R had cash and cash equivalents of $64.1 million and amounts available under its lines of credit totalling $886.5 million. Subject to market conditions, management expects to be able to meet all of the REIT's ongoing contractual obligations. As at December 31, 2023, 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, 2023, H&R had 85 unencumbered properties (including properties under development), with a fair value of approximately $4.2 billion. Also, due to H&R's 27 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, 2023, H&R had 8 properties valued at approximately $468.2 million which are encumbered with mortgages totalling $120.7 million. In this pool of assets, the average loan to value ratio is 25.8%, the minimum loan to value ratio is 0.9% and the maximum loan to value ratio is 29.5%. The weighted average remaining term to maturity of this pool of mortgages is 1.7 years.

Credit Rating

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

DBRS has confirmed that H&R has a credit rating of BBB with a Stable trend as at December 31, 2023. 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.

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, 2023, H&R has outstanding letters of credit totalling $43.0 million (December 31, 2022 - $42.1 million), including $20.0 million (December 31, 2022 - $20.7 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 have been previously provided. As at December 31, 2023, such guarantees amounted to $6.7 million, which expires in 2026 (December 31, 2022 - $89.1 million, which expired in 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.

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 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, 2023, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, was $208.8 million, which expire between 2024 and 2030 (December 31, 2022 - $215.7 million – which expire between 2024 and 2030). In January 2024, the REIT was released from $37.4 million of these guarantees.

In addition, the REIT provides guarantees on behalf of the co-owners of certain of Primaris REIT's properties. As at December 31, 2023, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, was $89.3 million, which expire between 2024 and 2027 (December 31, 2022 - $91.3 million, which expire between 2024 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. As at December 31, 2023, H&R had one forward exchange contact in place, noted in the table below. This strategy manages risks related to foreign exchange rates on transactions that will occur in the future.

During 2023 and 2022, H&R had the following swaps outstanding:

		Fair value asset (liability)*		Net unrealized gain (loss) on derivative instruments		Net unrealized gain (loss) on derivative instruments	
		December 31	December 31	Three months ended December 31		Years ended December 31	
(in thousands of Canadian dollars)	**Maturity**	**2023**	2022	**2023**	2022	**2023**	2022
Term loan interest rate swap[1]	May 7, 2030	**$20,015**	$26,875	**($16,491)**	($229)	**($6,860)**	$31,032
Term loan interest rate swap[2]	January 6, 2026	**8,171**	11,286	**(6,480)**	127	**(3,115)**	18,346
Debt interest rate swap[3]	September 29, 2027	**(1,229)**	(302)	**(10,587)**	604	**(927)**	(302)
Foreign exchange hedge[4]	March 10, 2025	**1,733**	—	**1,994**	—	**1,733**	—
		$28,690	$37,859	**($31,564)**	$502	**($9,169)**	$49,076

(1) To fix the interest rate at 3.42% per annum for the $250.0 million term loan.

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

(3) To fix the interest rate at 5.19% per annum on $250.0 million of variable rate debt, which includes a $125.0 million unsecured term loan.

(4) To fix the foreign exchange rate at $1.38 on U.S. $10.0 million, monthly. Under certain circumstances, the hedge may terminate between March 11, 2024 and March 10, 2025.

* 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 December 31 2023**	Year Ended December 31 2022	Year Ended December 31 2021
Rentals from Investment properties	**$847,146**	$834,640	$1,065,380
Net income from equity accounted investments	**145,459**	47,139	125,649
Finance income	**13,849**	14,793	17,229
Net income	**61,690**	844,823	597,907
Total comprehensive income (loss) attributable to unitholders	**(69,512)**	1,166,393	574,332
Total assets	**10,777,643**	11,412,603	10,501,141
Total liabilities	**5,585,268**	5,925,316	5,727,308
Cash Distributions per Unit	**$0.700**	$0.590	$0.790

Summary of Quarterly Information

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

(in thousands of Canadian dollars)	**Q4 2023**	Q3 2023	Q2 2023	Q1 2023
Rentals from investment properties	**$205,904**	$210,446	$212,501	$218,295
Net income (loss) from equity accounted investments	**145,320**	(11,017)	1,260	9,896
Net income (loss)	**(11,313)**	37,596	(59,395)	94,802
Total comprehensive income (loss) attributable to unitholders	**(142,303)**	166,623	(155,762)	61,930

	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

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

Rentals from investment properties decreased by $4.5 million in Q4 2023 compared to Q3 2023 primarily due to an office property having a lower realty tax recovery as a result of a lower final realty tax bill received in Q4 2023 as well as properties sold.

Net income (loss) from equity accounted investments increased by $156.3 million in Q4 2023 compared to Q3 2023 primarily due to fair value adjustments on real estate assets.

Net income (loss) decreased by $48.9 million in Q4 2023 compared to Q3 2023 primarily due to fair value adjustments on real estate assets and financial instruments, proceeds on disposal of purchase option received in Q3 2023 and deferred income tax expense applicable to U.S. Holdco. This was partially offset by the net income (loss) from equity accounted investments noted above.

Total comprehensive income (loss) attributable to unitholders decreased by $308.9 million in Q4 2023 compared to Q3 2023 primarily due to the decrease in net income (loss) noted above as well as an unrealized foreign currency loss on translation of U.S. denominated foreign operations of $131.0 million in Q4 2023 compared to an unrealized gain of $129.0 million in Q3 2023.

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.

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, 2022. 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, dispositions, and transfers of investment properties to or from properties under development during the two-year period ended December 31, 2023 (collectively, "Transactions").

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 *"Debt"* 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 *"Debt"* 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, estimates of future cash flows and market values per unit of measure. 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 International Accounting Standard 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.

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, 2023, 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, 2023. 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, 2023 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, 2023. No changes were made to H&R's internal control over financial reporting during the three-month period ended December 31, 2023 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.

In that regard, H&R's Declaration of Trust restricts the leasing of real property to any person where that person and its affiliates would, after the contemplated lease, be leasing real property having an aggregate leasable area in excess of 20% of the aggregate leasable area of all real property held by H&R, unless the lessee is, or the lease is guaranteed by, the Government of Canada, the Government of the United States, any province or territory of Canada, any state of the United States, any municipality in Canada or the United States, any agency or crown corporation thereof, a Canadian chartered bank or certain trust or insurance companies, and certain issuers, the securities of which meet stated investment criteria or are investment grade. At December 31, 2023, H&R was in compliance with this restriction. Furthermore, the only tenants which individually account for more than 5% of the rentals from investment properties of H&R are Hess Corporation, New York City Department of Health and Giant Eagle, Inc. Hess Corporation and New York City Department of Health both 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 51.3% 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.

The Senior Debentures, unsecured term loans and lines of credit of H&R contain certain covenants and conditions applicable to the REIT, including without limitation, those requiring H&R to maintain, at all times, the following financial ratios: (i) ratio of debt to gross asset value of not greater than 0.65:1.0 measured at the end of each fiscal quarter; (ii) interest coverage of not less than 1.65:1.0 measured at the end of each fiscal quarter for such quarter and the prior three fiscal quarters; and (iii) unitholders' equity of not less than $1.0 billion for Senior Debentures and $2.0 billion for unsecured term loans and lines of credit. As at December 31, 2023, H&R was in compliance with each of the preceding financial ratios.

If H&R indebtedness is replaced by new debt that has less favourable terms or H&R is unable to secure adequate funding, distributions by H&R to holders of Units may be adversely impacted. In addition, failure by H&R to comply with its obligations under the documents governing such indebtedness (including in the case of the credit facilities, the failure to meet certain financial ratios and financial conditions tests) may adversely impact cash distributions on Units.

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. In addition, H&R has entered into a foreign exchange hedge to fix the foreign exchange rate at $1.38 on U.S. $10.0 million monthly.

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. Additionally, legislation and other regulatory developments, including the *Prohibition on the Purchase of Residential Property by Non-Canadians Act*, could limit potential purchasers of H&R's properties, further reducing the liquidity of the real estate market.

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. The primary risks 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.

Risks Associated with Disease Outbreaks

A local, regional, national or international outbreak of a contagious disease, including, but not limited to, the 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.

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. In the event that formal standards for ESG or similar reporting are adopted by the Canadian securities regulators, the International Sustainability Standards Board of the IFRS Foundation or similar organizations with governance over H&R, H&R intends to comply with such standards. 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.

H&R competes for suitable real property investments with individuals, corporations, other real estate investment trusts and institutions (both Canadian and foreign) which are presently seeking, or which may seek in the future, real property investments similar to those desired by H&R. Many of these investors have greater financial resources than those of H&R, or operate without H&R's investment restrictions, or according to more flexible conditions. An increase in the availability of investment funds and an increase in interest in real property investments would tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yields thereon.

Potential Conflicts of Interest

H&R may be subject to various conflicts of interest because of the fact that the members of management and the Trustees may be engaged in a wide range of real estate and other business activities and H&R may become involved in transactions which conflict with the interests of the foregoing.

H&R management and the Trustees may from time to time deal with persons, firms, institutions or corporations with which H&R may be dealing, or which may be seeking investments similar to those desired by the REIT. The interests of these persons could conflict with those of H&R. In addition, from time to time, these persons may be competing with H&R for available investment opportunities.

Any decisions regarding the enforcement by H&R of the terms of any agreement entered into by H&R with a non-independent Trustee or with an associate of a non-independent Trustee may be made by a majority of the independent Trustees. There is a risk that non-independent Trustees may attempt to influence the independent Trustees in this regard.

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 the Board deems 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. The Board retain the right to re-evaluate the distribution policy from time to time as they consider appropriate.

Credit Ratings

Credit ratings assigned to H&R's debentures are not hold or sell recommendations, do not address the market price of the debentures, and are not assessments of the appropriateness of ownership of the debentures given various investment objectives. The credit ratings on the debentures may not reflect the potential impact of all risks and factors affecting the value of the debentures, including market risk, trading liquidity risk and covenant risk. In addition, real or anticipated changes in the credit ratings assigned to the debentures may affect their market value. Such changes can affect the cost at which H&R can access the debenture market, and the credit spreads on unsecured term loans or unsecured lines of credit, as applicable. There is no assurance that any rating will remain in effect for any given period of time and ratings may be upgraded, downgraded, placed under review, confirmed and discontinued by a rating agency in the future if in its judgment circumstances so warrant.

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 distribution reinvestment plan 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 no holder of Units, special voting units of the REIT ("Special Voting Units") or annuitant under a plan of which a holder of Units or Special Voting Units acts as trustee or carrier (an "annuitant") will be held to have any personal liability as such, and that no resort shall be had to, nor shall recourse or satisfaction be sought from, the private property of any holder of Units, Special Voting Units or annuitant for any liability whatsoever, in tort, contract or otherwise, to any person in connection with property of H&R or the affairs of H&R including, without limitation, for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of H&R or of the Trustees or any obligation which a holder of Units, Special Voting Units or annuitant would otherwise have to indemnify a Trustee for any personal liability incurred by the Trustee as such. Only assets of H&R are intended to be liable and subject to levy or execution for satisfaction of such liability.

H&R's Declaration of Trust further provides that certain written instruments signed by H&R (including all mortgages and, to the extent the Trustees determine to be practicable and consistent with their fiduciary duty to act in the best interests of holders of Units and Special Voting Units, other written instruments creating a material obligation of H&R) shall contain a provision or be subject to an acknowledgment to the effect that such obligation will not be personally binding upon holders of Units and Special Voting Units or upon and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any annuitant.

However, in conducting its affairs, H&R has acquired and may acquire real property investments subject to existing contractual obligations, including obligations under mortgages and leases. The Trustees will use all reasonable efforts to have any such obligations modified so as not to have such obligations personally binding upon any of the holders of Units, Special Voting Units or annuitants. However, H&R may not be able to obtain such modification in all cases. To the extent that claims are not satisfied by H&R, there is a risk that a holder of Units, Special Voting Units or annuitant will be held personally liable for obligations of H&R where the liability is not disavowed as described above.

Personal liability may also arise in respect of claims against H&R that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered remote as the nature of H&R's activities are such that most of its obligations arise by contract and non-contractual risks are largely insurable. However, the insurance policies maintained by H&R have exclusions for certain environmental liabilities. In the event that payment of H&R obligations were to be made by a holder of Units or Special Voting Units, such holder would be entitled to reimbursement from the available assets of H&R.

The Trustees will cause the activities of H&R to be conducted with the advice of counsel, in such a way and in such jurisdictions as to avoid, to the extent they determine to be practicable and consistent with their fiduciary duty to act in the best interests of the holders of Units and Special Voting Units, any material risk of liability on the holders of Units and Special Voting Units for claims against H&R. The Trustees will, to the extent available on terms which they determine to be practicable, cause the insurance carried by H&R, to the extent applicable, to cover the holders of Units, Special Voting Units and annuitants as additional insureds.

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. On December 16, 2004, the *Trust Beneficiaries' Liability Act, 2004 (Ontario)*, came into force. Such legislation provides that unitholders of a trust that is a reporting issuer and governed by the laws of Ontario are not liable, as beneficiaries, for any act, default, obligation or liability of the trust or any of its trustees that arise after the legislation came into force. A trust is considered governed by the laws of Ontario if its declaration of trust or other constating instrument contains the customary provision to that effect. H&R's Declaration of Trust contains such a provision, and accordingly, the holders of Units and Special Voting Units are protected by this legislation. However, there remains a risk, which H&R considers to be remote in the circumstances, that a holder of Units and Special Voting Units 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.

Investment Eligibility

The Tax Act imposes penalties for the acquisition or holding of non-qualified or prohibited investments (as defined in the Tax Act) by certain registered plans. H&R will endeavour to ensure that Units continue to be qualified investments for registered plans, but there can be no assurances in this regard. Unitholders, annuitants and subscribers of registered plans should consult their own tax advisors with respect to whether Units would be prohibited investments having regard to their particular circumstances.

Debentures

The likelihood that purchasers of the Series 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 Senior Debentures then outstanding.

The Senior 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.

In addition, H&R may be required to purchase all outstanding Senior Debentures upon the occurrence of a change of control. However, it is possible that following a change of control, H&R will not have sufficient funds at that time to make any required purchase of such outstanding debentures or that restrictions contained in other indebtedness will restrict those purchases.

Statutory Remedies

H&R is not a legally recognized entity within the relevant definitions of the Bankruptcy and Insolvency Act, the Companies' Creditors Arrangement Act and in some cases, the Winding Up and Restructuring Act. As a result, in the event a restructuring of H&R were necessary, H&R would not be able to access the remedies available thereunder.

The rights granted in H&R's Declaration of Trust are granted as contractual rights afforded to securityholders of H&R ("Securityholders"). Similar to other existing rights contained in H&R's Declaration of Trust (e.g. take-over bid provisions and conflict of interest provisions), making these rights and remedies and certain procedures available by contract is structurally different from the manner in which the equivalent rights and remedies or procedures (including the procedure for enforcing such remedies) are made available to shareholders of a corporation, who benefit from those rights and remedies or procedures by the corporate statute that governs the corporation, such as the *Canada Business Corporations Act*. As such, there is no certainty how these rights, remedies or procedures may be treated by the courts in the non-corporate context or that a Securityholder will be able to enforce the rights and remedies in the manner contemplated by H&R's Declaration of Trust. Furthermore, how the courts will treat these rights, remedies and procedures will be at the discretion of the court, and a court may choose to not accept jurisdiction to consider any claim contemplated in H&R's Declaration of the Trust.

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 2023. 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 2023 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 Units cease to be listed on a designated stock exchange (which currently includes the TSX), Units may cease to be qualified investments for registered retirement savings plans, deferred profit sharing plans, 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 28, 2023, the Minister of Finance released revised proposals ("Tax 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 or otherwise increase the REIT's income for purposes of the Tax Act, 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.

The Tax Proposals released on November 28, 2023 also include a proposed tax on repurchases of equity, which is proposed to be effective for transactions that occur on or after January 1, 2024 (the "Equity Repurchase Rules"). Under these proposals, a trust the equity of which is listed on a "designated stock exchange" (which currently includes the TSX) that is a real estate investment trust for purposes of the Tax Act will be subject to a 2% tax on the value of the trust's net equity repurchases (which would include purchases of Units by H&R under its normal course issuer bid) in a taxation year, as calculated in accordance with the detailed rules contained in the proposals, subject to a de minimis exception where the trust's gross equity repurchases in the year do not exceed $1,000,000. If H&R is required to pay tax under the Equity Repurchase Rules, the amount of cash available for distribution to investors would be reduced.

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 2022 and 2023, to refinance existing loans, including certain interest bearing unsecured subordinated notes of U.S. Holdco held by H&R (the “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, 2023 there were 261,867,587 Units issued and outstanding and 13,013,698 Special Voting Units outstanding. As at February 6, 2024, there were 261,867,587 Units issued and outstanding and 13,013,698 Special Voting Units outstanding.

During the year ended December 31, 2023, the unit option plan of H&R (the "Unit Option Plan") was amended to decrease the aggregate number of Units reserved for issuance pursuant to grants under the Unit Option Plan to 8,805,638, resulting in the voluntary reduction of the number options available for grant by 8,917,472. In accordance with the revised Unit Option Plan, no further options may be granted and upon expiry of any outstanding options, the pool will automatically decrease. Following expiry of the final outstanding options thereunder, the Unit Option Plan will terminate.

As at December 31, 2023, the maximum number of options to purchase Units authorized to be issued under H&R's Unit Option Plan was 8,805,638. Of this amount, 8,805,638 options to purchase Units have been granted and are outstanding and nil options remain available for granting. As at February 6, 2024, there were 8,805,638 options to purchase Units outstanding and fully vested.

As at December 31, 2023, 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 1,672,059 incentive units which remain outstanding, 365,450 have been settled for Units and 2,962,491 incentive units remain available for granting. As at February 6, 2024, there were 1,697,215 incentive units outstanding.

As at December 31, 2023 and February 6, 2024, 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.sedarplus.com.

SUBSEQUENT EVENTS

(a) In January 2024, the REIT redeemed all of its $350.0 million outstanding 3.369% Series N Series Debentures.

Consolidated financial statements of

H&R REAL ESTATE INVESTMENT TRUST

For the years ended December 31, 2023 and 2022

KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto, ON M5H 2S5
Canada
Tel 416-777-8500
Fax 416-777-8818

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, 2023 and 2022
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in unitholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(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, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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, 2023.

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 Notes 1 (d)(ii), 2 (b) and 4 of the financial statements. The Entity has recorded investment properties at fair value for an amount of $7,811,543 thousand. The Entity also has recorded equity accounted investments of $1,165,021 thousand representing the Entity's share of net assets of associates and joint ventures. These associates and joint ventures hold investment properties at fair value for an amount of $5,326,169 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, discount rates, estimates of future cash flows and market value per unit of measure.

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 our valuations professionals with specialized skills and knowledge, who assisted in evaluating, for the overall portfolio, the appropriateness of the capitalization rates, terminal capitalization rates, discount rates and market value per unit of measure used by Entity's internal valuation team and external independent appraisers. We evaluated these rates by comparing them to published reports of real estate industry commentators and, where available, the rate and market value per unit of measure assumptions were compared to 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 auditor's report thereon, included in a document entitled "2023 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 auditor's report thereon, included in a document entitled "2023 Annual Report" as at the date of this auditor's 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 auditor's 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 IFRS Accounting Standards as issued by the International Accounting Standards Board, 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, 2024

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H&R REAL ESTATE INVESTMENT TRUST

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

	Note	**December 31 2023**	December 31 2022
Assets			
Real estate assets:			
Investment properties	*3*	**$7,811,543**	$8,799,317
Properties under development	*3*	**1,074,819**	880,778
		8,886,362	9,680,095
Equity accounted investments	*4*	**1,165,012**	1,060,268
Assets classified as held for sale	*5*	**293,150**	294,028
Other assets	*6*	**369,008**	301,325
Cash and cash equivalents	*7*	**64,111**	76,887
		$10,777,643	$11,412,603
Liabilities and Unitholders' Equity			
Liabilities:			
Debt	*8*	**$3,686,833**	$3,922,529
Exchangeable units	*9*	**177,944**	217,668
Deferred revenue	*10*	**947,671**	986,243
Deferred tax liability	*22*	**437,214**	483,048
Accounts payable and accrued liabilities	*11*	**335,606**	309,505
Liabilities classified as held for sale	*5*	**—**	6,323
		5,585,268	5,925,316
Unitholders' equity		**5,192,375**	5,487,287
Commitments and contingencies	*23*		
Subsequent events	*3, 8(b), 11, 25*		
		$10,777,643	$11,412,603

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Trustees:

"Donald Clow" Trustee

"Thomas J. Hofstedter" Trustee

H&R REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Comprehensive Income (Loss)
(In thousands of Canadian dollars)
Years ended December 31, 2023 and 2022

	Note	**2023**	2022
Rentals from investment properties	*15*	**$847,146**	$834,640
Property operating costs		**(300,542)**	(299,691)
Net operating income		**546,604**	534,949
Net income from equity accounted investments	*4*	**145,459**	47,139
Finance cost - operations	*16*	**(218,152)**	(220,262)
Finance income	*16*	**13,849**	14,793
Proceeds on disposal of purchase option	*6*	**30,568**	—
Trust expenses		**(24,385)**	(22,121)
Fair value adjustment on financial instruments	*16*	**30,555**	38,349
Fair value adjustment on real estate assets	*3*	**(486,104)**	546,081
Gain (loss) on sale of real estate assets, net of related costs	*3*	**(7,247)**	7,332
Net income before income taxes		**31,147**	946,260
Income tax recovery (expense)	*22*	**30,543**	(101,437)
Net income		**61,690**	844,823
Other comprehensive income (loss):			
Items that are or may be reclassified subsequently to net income	*14*	**(131,202)**	321,570
Total comprehensive income (loss) attributable to unitholders		**($69,512)**	$1,166,393

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, 2023 and 2022

UNITHOLDERS' EQUITY	*Note*	Value of Units	Accumulated net income	Accumulated distributions	Accumulated other comprehensive income	Total
Unitholders' equity, January 1, 2022		$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(d)*	(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
Proceeds from issuance of Units		**1,695**	**—**	**—**	**—**	**1,695**
Net income		**—**	**61,690**	**—**	**—**	**61,690**
Distributions to unitholders		**—**	**—**	**(184,372)**	**—**	**(184,372)**
Units repurchased and cancelled	***13(d)***	**(42,723)**	**—**	**—**	**—**	**(42,723)**
Other comprehensive loss	***14***	**—**	**—**	**—**	**(131,202)**	**(131,202)**
Unitholders' equity, December 31, 2023		**$5,083,237**	**$6,778,212**	**($6,995,703)**	**$326,629**	**$5,192,375**

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, 2023 and 2022

	Note	**2023**	2022
Cash provided by (used in):			
Operations:			
Net income		**$61,690**	$844,823
Finance cost - operations	*16*	**218,152**	220,262
Interest paid		**(169,726)**	(171,242)
Items not affecting cash:			
Rental income accrued from the Bow and 100 Wynford	*10*	**(92,920)**	(86,555)
Net income from equity accounted investments	*4*	**(145,459)**	(47,139)
Rent amortization of tenant inducements	*15*	**4,514**	4,691
Fair value adjustment on real estate assets	*3*	**486,104**	(546,081)
(Gain) loss on sale of real estate assets, net of related costs	*3*	**7,247**	(7,332)
Fair value adjustment on financial instruments	*16*	**(30,555)**	(38,349)
Unit-based compensation expense	*13(b)*	**84**	6,765
Deferred income tax expense (recovery)	*22*	**(32,345)**	100,108
Change in other non-cash operating items	*17*	**(12,161)**	(24,897)
		294,625	255,054
Investing:			
Properties under development:			
Acquisitions	*3*	**(18,666)**	(90,845)
Additions	*3, 17*	**(162,273)**	(70,024)
Investment properties:			
Deferred revenue	*10*	**—**	118,608
Net proceeds on disposition of real estate assets		**371,900**	263,679
Acquisitions	*3*	**(66)**	(78,448)
Redevelopment, net of insurance proceeds	*3*	**(7,203)**	5,425
Capital expenditures	*3*	**(41,168)**	(35,582)
Leasing expenses and tenant inducements	*3*	**(4,747)**	(8,516)
Equity accounted investments, net		**7,410**	57,559
Mortgages receivable, net		**36,856**	32,732
Restricted cash	*6*	**(69,181)**	(17,909)
Proceeds from sale of Primaris REIT units		**—**	49,275
		112,862	225,954
Financing:			
Unsecured term loans	*8*	**(125,000)**	250,000
Lines of credit	*8*	**292,210**	—
Mortgages payable:			
New mortgages payable	*8*	**20,361**	—
Principal repayments	*8*	**(144,534)**	(301,132)
Redemption of debentures payable	*8*	**(250,000)**	—
Proceeds from issuance of Units	17	**(13)**	(331)
Units repurchased and cancelled	*13(d)*	**(42,723)**	(297,056)
Distributions paid to unitholders	*17*	**(170,564)**	(179,743)
		(420,263)	(528,262)
Decrease in cash and cash equivalents		**(12,776)**	(47,254)
Cash and cash equivalents, beginning of year	*7*	**76,887**	124,141
Cash and cash equivalents, end of year	*7*	**$64,111**	$76,887

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

See accompanying notes to the consolidated financial statements.

H&R Real Estate Investment Trust (the "REIT") is an unincorporated open-ended trust domiciled in Canada. The REIT owns, operates and develops residential and commercial 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.

1. Basis of preparation:

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") as issued 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, 2024.

(b) Functional currency and presentation

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

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

(c) Basis of measurement

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

(i) Real estate assets;

(ii) Assets classified as held for sale;

(iii) Certain mortgages receivable;

(iv) Derivative instruments;

(v) Liabilities for cash-settled unit-based compensation; and

(vi) Exchangeable units.

(d) Use of estimates and judgements

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

(i) Use of estimates

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

(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, estimates of future cash flows and market values per unit of measure. 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.

2. Material accounting policy information:

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, *Business Combinations*. The REIT expenses transaction costs on business combinations and capitalizes transaction costs on asset acquisitions.

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

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

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

(c) Properties under development*:*

Properties under development for future use as investment property are accounted for as investment property under IAS 40. Costs eligible for capitalization to properties under development are initially recorded at cost, and subsequent to initial recognition are accounted for using the fair value method. At each reporting date, 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) 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.

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 2023 and the 2022 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.

(e) Unit-based compensation*:*

The REIT has a unit option plan and an 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.

(f) 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.

(g) 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.

(h) 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 (loss). 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.

(i) 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.

(j) Levies*:*

Under IFRS Interpretations Committee 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.

(k) 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.

(l) 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.

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

3. Real estate assets:

		December 31, 2023		December 31, 2022	
	Note	**Investment Properties**	**Properties Under Development**	Investment Properties	Properties Under Development
Opening balance, beginning of year		**$8,799,317**	**$880,778**	$8,581,100	$481,432
Acquisitions, including transaction costs		**66**	**18,666**	78,448	90,845
Dispositions		**(128,357)**	**—**	(256,292)	—
Operating capital:					
Capital expenditures		**41,168**	**—**	35,582	—
Leasing expenses and tenant inducements		**4,747**	**—**	8,516	—
Development capital:					
Redevelopment, net of insurance proceeds		**7,203**	**—**	(5,425)	—
Additions to properties under development (including capitalized interest)		**—**	**170,246**	—	71,255
Amortization of tenant inducements and straight-lining of contractual rents		**6,985**	**—**	1,896	—
Transfer of properties under development that have reached substantial completion to investment properties		**—**	**—**	56,834	(56,834)
Transfer of investment properties to assets classified as held for sale	*5*	**(293,150)**	**—**	(294,028)	—
Change in right-of-use assets[1]	*17*	**—**	**(965)**	—	(1,023)
Fair value adjustment on real estate assets		**(508,104)**	**22,000**	283,705	262,376
Change in foreign exchange		**(118,332)**	**(15,906)**	308,981	32,727
Closing balance, end of year		**$7,811,543**	**$1,074,819**	$8,799,317	$880,778

(1) As at December 31, 2023, the right-of-use assets in a leasehold interest of U.S. $21,629 (December 31, 2022 - U.S. $22,360) was measured at an amount equal to the corresponding lease liabilities (note 11). The Canadian dollar equivalent of this amount is $28,550 (December 31, 2022 - $30,410). In January 2024, the REIT acquired the right-of-use assets and was released from the corresponding lease liabilities (note 11).

Asset acquisitions:

During the year ended December 31, 2023, the REIT:

(a) did not acquire any investment properties (year ended December 31, 2022 - acquired one U.S. office property and a 50% interest in one Canadian industrial property); and

(b) acquired a 50% interest in one U.S. land parcel for future residential development (year ended December 31, 2022 - acquired five U.S. land parcels for future residential 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 2023	December 31 2022
Assets		
Investment properties	**$—**	$78,362
Properties under development	**18,666**	90,845
	$18,666	$169,207

During the year ended December 31, 2023, the REIT incurred additional costs of $66 (year ended December 31, 2022 - $86) in respect of prior year acquisitions which are not included in the above table.

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

Asset dispositions:

During the year ended December 31, 2023, the REIT sold one Canadian office property, two U.S. office properties, a 50% interest in one Canadian office property, four Canadian retail properties, one U.S. retail property, one U.S. industrial property and a 50% interest in three Canadian industrial properties and recognized a loss on sale of real estate assets, net of related costs of $7,247.

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

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;

(ii) The direct capitalization method which calculates fair value by applying a capitalization rate to future cash flows based on stabilized net operating income; and

(iii) The comparable sales approach which estimates fair value based on the market value per unit of measure which is established by recent sales activity in the same or similar markets.

During the year ended December 31, 2023, 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 16.5% and 0.0% of the fair value of investment properties and properties under development, respectively, as at December 31, 2023 (year ended December 31, 2022 - 21.4% and 35.5%, 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:

	Weighted Average Capitalization Rates(1)			**Weighted Average Discount Rates**(2)			**Weighted Average Terminal Capitalization Rates**(1)(2)		
	Canada	United States	Total	Canada	United States	Total	Canada	United States	Total
December 31, 2023	**5.79%**	**5.84%**	**5.82%**	**6.73%**	**7.55%**	**6.96%**	**6.48%**	**7.24%**	**6.74%**
December 31, 2022	5.65%	5.23%	5.41%	6.58%	7.12%	6.73%	6.08%	6.70%	6.29%

(1) Excludes the Bow and 100 Wynford as these properties were legally sold in October 2021 and August 2022, respectively (note 10). The discount rate is used to adjust the fair value of the investment properties over the remaining life of the respective leases.
(2) Excludes the REIT's residential segment as these properties are valued using the direct capitalization method.

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

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, 2023:

Capitalization Rate Sensitivity Increase (Decrease)	Capitalization Rate	Fair Value of Investment Properties	Fair Value Variance	% Change
(0.75%)	5.07%	$ 7,720,539	$ 994,915	14.79%
(0.50%)	5.32%	$ 7,357,732	$ 632,108	9.40%
(0.25%)	5.57%	$ 7,027,492	$ 301,868	4.49%
December 31, 2023	**5.82%**	**$ 6,725,624** (1)	$ —	—
0.25%	6.07%	$ 6,448,621	$ (277,003)	(4.12)%
0.50%	6.32%	$ 6,193,533	$ (532,091)	(7.91)%
0.75%	6.57%	$ 5,957,859	$ (767,765)	(11.42)%

(1) Excludes the Bow and 100 Wynford as these properties were legally sold in October 2021 and August 2022, respectively (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.

			Ownership interest	
Description of Equity accounted investments	**Location**	**Operating segment**	**December 31 2023**	December 31 2022
Investments in joint ventures:(1)				
Hercules Project	United States	Residential	**31.7 %**	31.7 %
Shoreline	United States	Residential	**31.2 %**	31.2 %
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 %**	50.0 %
Sunny Creek	United States	Residential	**33.3 %**	— %
Investments in associates:(2)				
Jackson Park	United States	Residential	**50.0 %**	50.0 %
ECHO Realty LP ("ECHO")	United States	Retail	**33.1 %**	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.

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

During the year ended December 31, 2023, the REIT acquired Sunny Creek, a joint venture that holds one residential property under development.

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.

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:

	December 31, 2023				December 31, 2022			
Equity accounted investments in:	**----Associates----**		**Joint Ventures[1]**		----Associates----		Joint Ventures[1]	
	ECHO	**Jackson Park**		**Total**	ECHO	Jackson Park		Total
Investment properties[2]	**$2,590,479**	**$2,277,690**	**$458,000**	**$5,326,169**	$2,713,391	$2,057,000	$494,887	$5,265,278
Properties under development	**88,199**	**—**	**256,961**	**345,160**	43,428	—	168,753	212,181
Other assets	**53,344**	**3,810**	**6,845**	**63,999**	54,453	3,352	4,462	62,267
Cash and cash equivalents	**29,387**	**10,621**	**46,160**	**86,168**	22,797	12,598	53,876	89,271
Debt	**(1,033,828)**	**(1,308,673)**	**(301,917)**	**(2,644,418)**	(1,060,442)	(1,346,310)	(319,401)	(2,726,153)
Accounts payable and accrued liabilities	**(51,495)**	**(15,603)**	**(11,685)**	**(78,783)**	(30,208)	(16,344)	(11,821)	(58,373)
Lease liabilities[2]	**(94,437)**	**—**	**—**	**(94,437)**	(105,606)	—	—	(105,606)
Non-controlling interest	**(58,630)**	**—**	**—**	**(58,630)**	(67,004)	—	—	(67,004)
Net assets	**1,523,019**	**967,845**	**454,364**	**2,945,228**	1,570,809	710,296	390,756	2,671,861
REIT's share of net assets	**$504,418**	**$483,923**	**$176,671**	**$1,165,012**	$537,106	$355,503	$167,659	$1,060,268

(1) See the table "Description of equity accounted investments" (note 4) for the composition of the REIT's investments in joint ventures.

(2) As at December 31, 2023, the total fair value of investment properties within equity accounted investments, net of the lease liabilities, was $5,231,732 (December 31, 2022 - $5,159,672).

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, 2023 and November 30, 2022, respectively.

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

Net income (loss) from equity accounted investments in:	**Year ended December 31, 2023**				Year ended December 31, 2022			
	----Associates----		**Joint Ventures[1]**		----Associates----		Joint Ventures[1]	
	ECHO	**Jackson Park**		**Total**	ECHO	Jackson Park		Total
Rentals from investment properties	**$229,384**	**$129,172**	**$29,998**	**$388,554**	$213,800	$105,310	$15,967	$335,077
Property operating costs	**(50,051)**	**(38,861)**	**(15,924)**	**(104,836)**	(46,579)	(40,813)	(6,656)	(94,048)
Net income from equity accounted investments	**1,289**	**—**	**—**	**1,289**	3,361	—	—	3,361
Finance income	**930**	**—**	**69**	**999**	200	—	41	241
Finance cost - operations	**(57,772)**	**(46,490)**	**(19,986)**	**(124,248)**	(44,347)	(44,768)	(8,618)	(97,733)
Trust expenses	**(14,586)**	**—**	**(38)**	**(14,624)**	(9,572)	—	(35)	(9,607)
Fair value adjustment on financial instruments	**1,025**	**—**	**1,658**	**2,683**	8,638	—	—	8,638
Fair value adjustment on real estate assets	**(92,272)**	**287,510**	**(70,346)**	**124,892**	(26,306)	(41,412)	9,160	(58,558)
Gain (loss) on sale of real estate assets, net of related costs	**(7,617)**	**—**	**1,053**	**(6,564)**	1,594	—	52,680	54,274
Income tax expense	**(151)**	**(18)**	**—**	**(169)**	(168)	(20)	(258)	(446)
Net income (loss)	**10,179**	**331,313**	**(73,516)**	**267,976**	100,621	(21,703)	62,281	141,199
Net income attributable to non-controlling interest	**(3,787)**	**—**	**—**	**(3,787)**	(2,871)	—	—	(2,871)
Net income (loss) attributable to owners	**6,392**	**331,313**	**(73,516)**	**264,189**	97,750	(21,703)	62,281	138,328
REIT's share of net income (loss) attributable to unitholders	**$2,117**	**$165,656**	**($22,314)**	**$145,459**	$32,931	($10,851)	$25,059	$47,139

(1) See the table “Description of equity accounted investments” (note 4) 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, 2022 to November 30, 2023 and December 1, 2021 to November 30, 2022, respectively.

5. Assets and liabilities classified as 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.

As at December 31, 2023, the REIT had one Canadian office property and a 50% interest in one Canadian industrial property classified as held for sale.

As at December 31, 2022, the REIT had one Canadian office property, a 50% interest in one Canadian office property and a 50% interest in one Canadian industrial property classified as held for sale.

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

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 2023	December 31 2022
Assets		
Investment properties	**$293,150**	$294,028
Liabilities		
Mortgage payable	**$—**	$6,323

6. Other assets:

	Note	**December 31 2023**	December 31 2022
Mortgages receivable[(1)]		**$166,077**	$169,190
Prepaid expenses and sundry assets		**70,482**	61,212
Accounts receivable - net of provision for expected credit loss of $3,556 (2022 - $4,946)		**5,905**	5,318
Restricted cash[(2)]		**96,625**	27,444
Derivative instruments	*12*	**29,919**	38,161
		$369,008	$301,325

	December 31 2023	December 31 2022
Current	**$285,839**	$194,538
Non-current	**83,169**	106,787
	$369,008	$301,325

(1) Mortgages receivable include nil classified as FVTPL and $166,077 classified as amortized cost (December 31, 2022 - $53,355 and $115,835, respectively). As at December 31, 2023, mortgages receivable bear interest at effective rates between 2.50% and 14.32% per annum (December 31, 2022 - between 2.50% and 14.32% per annum) with a weighted average effective rate of 7.52% per annum (December 31, 2022 - 8.18%), and mature between 2024 and 2029 (December 31, 2022 - mature between 2023 and 2029).

H&R had a mortgage receivable of approximately $37,200 secured against industrial land in North Las Vegas, NV, as well as an option to purchase the land. In August 2023, H&R sold its option to purchase the land and received repayment of its mortgage receivable from the borrower for aggregate proceeds of $67,800. As a result, H&R recorded $30,600 as proceeds on disposal of purchase option.

(2) Included in restricted cash as at December 31, 2023, was approximately $57,000 of proceeds from the sale of three U.S. properties and approximately $30,600 of proceeds from the disposal of a purchase option held in escrow for property exchanges under Section 1031 of the U.S. Internal Revenue Code (December 31, 2022 - $18,900 of proceeds from the sale of three U.S. properties).

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

Future repayments of mortgages receivable are as follows:

	December 31 2023
Years ending December 31:	
2024	**$112,827**
2025	**—**
2026	**16,484**
2027	**—**
2028	**30,000**
Thereafter	**6,766**
	$166,077

7. Cash and cash equivalents:

Cash and cash equivalents as at December 31, 2023 included cash on hand of $64,111 (December 31, 2022 - $76,887).

Included in cash and cash equivalents as at December 31, 2023 were U.S. dollar denominated amounts of U.S. $34,657 (December 31, 2022 - U.S. $37,043). The Canadian dollar equivalent of these amounts is $45,747 (December 31, 2022 - $50,378).

8. Debt:

The REIT's debt consists of the following items:

	Note	**December 31 2023**	December 31 2022
Mortgages payable	*8(a)*	**$1,459,163**	$1,613,361
Debentures payable	*8(b)*	**1,297,960**	1,546,668
Unsecured term loans	*8(c)*	**625,000**	750,000
Lines of credit	*8(d)*	**304,710**	12,500
		$3,686,833	$3,922,529

The following is a summary of the changes in debt for the year ended December 31, 2023:

	Note	Mortgages Payable	Debentures Payable	Unsecured Term Loans	Lines of Credit	Total
Opening balance, beginning of year		$1,613,361	$1,546,668	$750,000	$12,500	$3,922,529
Scheduled amortization payments		(40,966)	—	—	(770)	(41,736)
Debt repayments	8(b), 8(c)	(103,568)	(250,000)	(125,000)	(12,500)	(491,068)
New debt		20,361	—	—	275,000	295,361
Net advances		—	—	—	30,480	30,480
Effective interest rate accretion		1,877	1,292	—	—	3,169
Change in foreign exchange		(31,902)	—	—	—	(31,902)
Closing balance, end of year		$1,459,163	$1,297,960	$625,000	$304,710	$3,686,833

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

(a) Mortgages payable:

The mortgages payable are secured by 43 real estate assets with an aggregate fair value of $3,275,426 (December 31, 2022 - 51 real estate assets with an aggregate fair value of $3,863,654), bearing interest at fixed rates with a contractual weighted average rate of 3.99% (December 31, 2022 - 3.99%) per annum and maturing between 2024 and 2030 (December 31, 2022 - maturing between 2023 and 2032). Included in mortgages payable as at December 31, 2023 were U.S. dollar denominated mortgages of U.S. $725,668 (December 31, 2022 - U.S. $797,556). The Canadian dollar equivalent of these amounts is $957,882 (December 31, 2022 - $1,084,676).

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

Future principal mortgage payments are as follows:

	December 31 2023
Years ending December 31:	
2024	**$203,806**
2025	**139,694**
2026	**62,735**
2027	**441,055**
2028	**486,798**
Thereafter	**131,539**
	1,465,627
Financing costs and mark-to-market adjustment arising on acquisitions	**(6,464)**
	$1,459,163

(b) Debentures payable:

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

					December 31 2023	December 31 2022
	Maturity	**Contractual interest rate**	**Effective interest rate**	**Principal amount**	**Carrying value**	Carrying value
Unsecured Senior Debentures:						
Series O Senior Debentures	January 23, 2023[(1)]	3.42%	3.44%	$—	**$—**	$249,980
Series N Senior Debentures	January 30, 2024[(2)]	3.37%	3.45%	350,000	**349,965**	349,548
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	**399,311**	398,892
Series R Senior Debentures	June 2, 2026	2.91%	3.00%	250,000	**249,443**	249,229
Series S Senior Debentures	February 19, 2027	2.63%	2.72%	300,000	**299,241**	299,019
		3.33%	3.42%	$1,300,000	**$1,297,960**	$1,546,668

(1) In January 2023, the REIT repaid all of its outstanding Series O senior debentures upon maturity for a cash payment of $250,000.

(2) In January 2024, the REIT repaid all of its outstanding Series N senior debentures upon maturity for a cash payment of $350,000.

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

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

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 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, but not more than 60 days, before the date fixed for redemption, which redemption may be upon such conditions as 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.

(c) Unsecured term loans:

The REIT has the following unsecured term loans:

	Maturity Date	**December 31 2023**	December 31 2022
H&R REIT unsecured term loan #1[(1)]		**$—**	$125,000
H&R REIT unsecured term loan #2[(2)]	March 7, 2025	**250,000**	250,000
H&R REIT unsecured term loan #3[(3)]	November 30, 2025	**125,000**	125,000
H&R REIT unsecured term loan #4[(4)]	January 6, 2026	**250,000**	250,000
		$625,000	$750,000

(1) In August 2023, the REIT repaid all of this unsecured term loan of $125,000, prior to the original maturity date of November 30, 2024.
(2) The REIT entered into an interest rate swap to fix the interest rate at 3.42% per annum. The swap matures on May 7, 2030 (note 12).
(3) 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).
(4) 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).

(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, 2024	$150,000	$—	$—	$150,000
H&R REIT revolving unsecured line of credit	December 14, 2027	750,000	(30,480)	(1,873)	717,647
H&R REIT revolving unsecured letter of credit facility		60,000	—	(41,145)	18,855
Sub-total		960,000	(30,480)	(43,018)	886,502
Non-revolving secured operating line of credit[(1)]:					
H&R REIT and CrestPSP non-revolving secured line of credit	March 14, 2026	274,230	(274,230)	—	—
December 31, 2023		**$1,234,230**	**($304,710)**	**($43,018)**	**$886,502**
December 31, 2022		$985,000	($12,500)	($42,148)	$930,352

(1) Secured by certain investment properties.

The lines of credit can be drawn in either Canadian or U.S. dollars and bear interest at a rate approximating the prime rate of a Canadian chartered bank. Included in lines of credit as at December 31, 2023 are U.S. dollar denominated amounts of $14,000 (December 31, 2022 - nil). The Canadian equivalent of these amounts are $18,480 (December 31, 2022 - nil).

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

9. Exchangeable units:

As at December 31, 2023, certain of the REIT's subsidiaries had in aggregate 17,974,186 (December 31, 2022 - 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, 2023 was $9.90 (December 31, 2022 - $12.11) per Unit.

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

	December 31 2023	December 31 2022
Carrying value, beginning of year	**$217,668**	$216,841
Exchanged for Units	**—**	(4,064)
(Gain) loss on fair value of exchangeable units	**(39,724)**	4,891
Carrying value, end of year	**$177,944**	$217,668

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

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 Ovintiv 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.

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

(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 statements of financial position:

	December 31, 2023			December 31
	The Bow	**100 Wynford**	**Total**	2022
Income producing property - fair value[1]	**$976,951**	**$108,968**	**$1,085,919**	$1,127,002
Deferred revenue - net of amortization of $75,314 (2022 - $36,742)	**838,861**	**108,810**	**947,671**	986,243

(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 (loss):

	Year ended December 31			
	The Bow	**100 Wynford**	**2023**	2022
Rental income earned	**$15,656**	**$—**	**$15,656**	$20,401
Rental income earned - **non-cash**	**84,423**	**8,497**	**92,920**	86,555
Straight-lining of contractual rent	**—**	**—**	**—**	265
Revenue reimbursement for property operating costs	**50,646**	**2,780**	**53,426**	47,739
Property operating costs	**(50,790)**	**(2,813)**	**(53,603)**	(47,864)
Net operating income	**99,935**	**8,464**	**108,399**	107,096
Accretion finance expense on deferred revenue - **non-cash**	**(53,225)**	**(1,123)**	**(54,348)**	(57,389)
Fair value adjustment on real estate assets - **non-cash**	**(35,001)**	**(8,442)**	**(43,443)**	(37,429)
Net income (loss)	**$11,709**	**($1,101)**	**$10,608**	$12,278

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

11. Accounts payable and accrued liabilities:

	Note	December 31 2023	December 31 2022
Current:			
Other accounts payable and accrued liabilities		**$205,849**	$181,527
Distributions payable to unitholders		**39,279**	25,471
Distributions payable to exchangeable unitholders		**2,696**	1,722
Debt interest payable		**12,515**	16,480
Prepaid rent		**21,492**	22,033
Lease liabilities[1]		**28,550**	—
Unit-based compensation payable:			
Options	*13(b)*	**1,244**	5,592
Incentive units	*13(b)*	**6,095**	3,359
Non-current:			
Derivative instruments	*12*	**1,229**	302
Lease liabilities[1]		**—**	30,410
Security deposits		**10,847**	10,660
Unit-based compensation payable:			
Incentive units	*13(b)*	**5,810**	11,949
		$335,606	$309,505

(1) Corresponds to a right-of-use assets in a leasehold interest (note 3). In January 2024, the REIT acquired the right-of-use assets and was released from the corresponding lease liabilities (note 3).

12. Derivative instruments:

		Fair value asset (liability)*		Net unrealized gain (loss) on derivative instruments	
		December 31	December 31	Years ended December 31	
	Maturity	**2023**	2022	**2023**	2022
Term loan interest rate swap[1]	May 7, 2030	**$20,015**	$26,875	**($6,860)**	$31,032
Term loan interest rate swap[2]	January 6, 2026	**8,171**	11,286	**(3,115)**	18,346
Debt interest rate swap[3]	September 29, 2027	**(1,229)**	(302)	**(927)**	(302)
Foreign exchange hedge[4]	March 10, 2025	**1,733**	—	**1,733**	—
		$28,690	$37,859	**($9,169)**	$49,076

The REIT entered into swaps as follows:

(1) To fix the interest rate at 3.42% per annum for the $250,000 term loan.
(2) To fix the interest rate at 4.16% per annum for the $250,000 term loan.
(3) To fix the interest rate at 5.19% per annum on $250,000 of variable rate debt, which includes a $125,000 unsecured term loan.
(4) To fix the foreign exchange rate at $1.38 on U.S. $10,000, monthly. Under certain circumstances, the hedge may terminate between March 11, 2024 and March 10, 2025.

* 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).

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

13. Unitholders' equity:

The REIT is an unincorporated open-ended trust. The beneficial interests in the REIT are divided into two classes of trust units: units of the REIT and special voting units.

(a) Description of Units:

Each Unit and special voting unit carries a single vote at any meeting of unitholders. Holders of special voting units do not have any additional rights than those of holders of Units. The aggregate number of Units which the REIT may issue is unlimited and the aggregate number of special voting units which the REIT may issue is 13,013,698 (December 31, 2022 - 13,013,698). Units carry the right to participate pro rata in any distributions. As at December 31, 2023, there were 13,013,698 (December 31, 2022 - 13,013,698) 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 valid tender for redemption of each Unit, the unitholder is entitled to receive a price per Unit as determined by a formula based on the market price of a Unit. The redemption price payable by the REIT will be satisfied by way of a cash payment to the unitholder or, in certain circumstances, including where such payment would cause the REIT's monthly cash redemption obligations to exceed $50 (subject to adjustment in certain circumstances or waiver by the trustees), an *in specie* distribution of notes of H&R Portfolio LP Trust (a subsidiary of the REIT).

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

	December 31 2023	December 31 2022
Balance, beginning of year	**265,884,526**	288,439,847
Issuance of Units:		
Incentive units settled in Units	**130,261**	13,119
Exchangeable units exchanged into Units	**—**	305,360
Units repurchased and cancelled	**(4,147,200)**	(22,873,800)
Balance, end of year	**261,867,587**	265,884,526

The weighted average number of basic Units for the year ended December 31, 2023 was 263,840,995 (December 31, 2022 - 272,671,167).

(b) Unit-based compensation:

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

(i) Unit option plan:

During the year ended December 31, 2023, the unit option plan of the REIT (the "Unit Option Plan") was amended to decrease the aggregate number of Units reserved for issuance pursuant to grants under the Unit Option Plan to 8,805,638, resulting in the voluntary reduction of the number of options available for grant by 8,917,472.

In accordance with the revised Unit Option Plan, no further options may be granted and upon expiry of any outstanding options, the pool will automatically decrease. Following expiry of the final outstanding options thereunder, the Unit Option Plan will terminate.

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

As at December 31, 2023, a maximum of 8,805,638 (December 31, 2022 - 17,723,110) options to purchase Units were authorized to be issued; 8,805,638 (December 31, 2022 - 10,313,443) options have been granted and are outstanding and nil (December 31, 2022 - 7,409,667) 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, 2023		December 31, 2022	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding and vested, beginning of year	**10,313,443**	**$14.62**	11,660,809	$14.89
Expired	**(1,507,805)**	**16.84**	(1,347,366)	16.93
Outstanding and vested, end of year	**8,805,638**	**$14.24**	10,313,443	$14.62

The outstanding and vested options as at December 31, 2023 are exercisable at varying prices ranging from $13.86 to $16.19 (December 31, 2022 - $13.86 to $16.84) and have a weighted average remaining life of 1.9 years (December 31, 2022 - 2.5 years).

(ii) Incentive unit plan:

As at December 31, 2023, a maximum of 5,000,000 (December 31, 2022 - 5,000,000) incentive units exchangeable into Units were authorized to be issued. The REIT has granted 1,672,059 (December 31, 2022 - 1,932,770) incentive units which remain outstanding, 365,450 (December 31, 2022 - 235,189) incentive units have been settled for Units and 2,962,491 (December 31, 2022 - 2,832,041) incentive units remain available for granting.

Incentive units, comprised of restricted units, deferred units and performance 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, 2023, 100% of the restricted units outstanding vest on the third 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.

During the year ended December 31, 2023, the REIT and certain of the Trustees entered into an amending agreement to amend the terms of their respective outstanding restricted units such that the outstanding restricted units were converted into deferred units. Deferred units vest immediately upon their grant date and will be redeemed and settled after the Trustee ceases to be a member of the Board.

The REIT grants performance units under the incentive unit plan with a three-year performance period for certain senior executives. The performance units are and will be subject to both internal and external measures consisting of both absolute and relative performance over a three-year period and, subject to the holder's election, cash settled upon vesting. In March 2023, the grant of performance units awarded in 2020 vested at 54% of target and in February 2022, the grant of performance units awarded in 2019 vested at 0% of target.

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

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

	December 31 2023	December 31 2022
	Incentive units	Incentive units
Outstanding, beginning of year	**1,932,770**	1,593,778
Granted	**684,743**	595,641
Expired	**(41,882)**	(81,321)
Settled	**(903,572)**	(175,328)
Outstanding, end of year	**1,672,059**	1,932,770

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

	December 31 2023	December 31 2022
Options	**$1,244**	$5,592
Incentive units	**11,905**	15,308
	$13,149	$20,900

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

	2023	2022
Options	**$4,348**	($1,157)
Incentive units	**(4,432)**	(5,608)
	($84)	($6,765)

(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, 2023, the REIT declared distributions per Unit of $1.22 (December 31, 2022- $0.94) comprised of: (i) monthly cash distributions in aggregate of $0.60 per Unit (December 31, 2022 - $0.54 per Unit); (ii) a special cash distribution of $0.10 per Unit (December 31, 2022 - $0.05 per Unit); and (iii) a special distribution in Units of $0.52 per Unit (December 31, 2022 - $0.35 per Unit), which were immediately consolidated such that there was no change in the number of outstanding Units.

(d) Normal course issuer bid:

On February 9, 2023, the REIT received approval from the TSX for the renewal of its normal course issuer bid ("NCIB") allowing the REIT to purchase for cancellation up to a maximum of 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.

During the year ended December 31, 2023, the REIT purchased and cancelled 4,147,200 Units at a weighted average price of $10.30 per Unit, for a total cost of $42,723.

During the year ended December 31, 2022, under a previous NCIB, 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.

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

14. Accumulated other comprehensive income:

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

	December 31, 2023			December 31 2022
	Cash flow hedges	**Foreign operations**	**Total**	Total
Opening balance, beginning of year	**($134)**	**$457,965**	**$457,831**	$136,261
Transfer of realized loss on cash flow hedges to net income	**28**	**—**	**28**	29
Unrealized gain (loss) on translation of U.S. denominated foreign operations	**—**	**(131,230)**	**(131,230)**	321,541
	28	**(131,230)**	**(131,202)**	321,570
Closing balance, end of year	**($106)**	**$326,735**	**$326,629**	$457,831

15. Rentals from investment properties:

	2023	2022
Rental income	**$682,262**	$674,487
Revenue from services	**157,994**	158,332
Straight-lining of contractual rent	**11,404**	6,512
Rent amortization of tenant inducements	**(4,514)**	(4,691)
	$847,146	$834,640

Operating leases:

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

	2023	2022
Less than 1 year	**$485,529**	$496,086
Between 1 and 5 years	**1,344,965**	1,428,819
More than 5 years	**1,819,983**	2,091,932
	$3,650,477	$4,016,837

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

16. Finance costs:

	Note	**2023**	2022
Finance cost - operations			
Contractual interest on mortgages payable		**($62,024)**	($67,506)
Contractual interest on debentures payable		**(43,778)**	(51,780)
Contractual interest on unsecured term loans		**(28,489)**	(18,969)
Bank interest and charges on lines of credit		**(20,266)**	(10,950)
Effective interest rate accretion		**(4,638)**	(4,207)
Accretion finance expense on deferred revenue	*10*	**(54,348)**	(57,389)
Exchangeable unit distributions		**(12,582)**	(10,692)
		(226,125)	(221,493)
Capitalized interest[(1)]		**7,973**	1,231
		(218,152)	(220,262)
Finance income		**13,849**	14,793
Fair value adjustment on financial instruments		**30,555**	38,349
		($173,748)	($167,120)

(1) The weighted average rate of borrowings for the capitalized interest was 5.24% for the year ended December 31, 2023 (December 31, 2022 - 5.24%).

17. Supplemental cash flow information:

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

	2023	2022
Accrued rents receivable	**($11,499)**	($6,587)
Prepaid expenses and sundry assets	**(11,028)**	6,029
Accounts receivable	**(587)**	812
Accounts payable and accrued liabilities	**10,953**	(25,151)
	($12,161)	($24,897)

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

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

	Note	**2023**	2022
Non-cash items:			
Non-cash adjustment to proceeds from issuance of Units		**$1,708**	$169
Exchangeable units exchanged for Units	*9*	**—**	4,064
Non-cash assumption of liability held for sale on disposition of investment property		**(6,323)**	—
Mortgages receivable from the sale of investment properties		**37,000**	—
Other items:			
Change in right-of-use assets	*3*	**965**	1,023
Change in distributions payable to unitholders	*11*	**(13,808)**	19,958
Change in debt interest payable included in finance cost - operations	*11*	**3,965**	3,626
Change in distributions payable to exchangeable unit holders included in finance cost - operations	*11*	**(974)**	380
Capitalized interest on properties under development	*16*	**(7,973)**	(1,231)

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 2023	December 31 2022
Debt	**$3,686,833**	$3,922,529
Exchangeable units	**177,944**	217,668
Unitholders' equity	**5,192,375**	5,487,287
	$9,057,152	$9,627,484

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, 2023, this ratio was 34.2%% (December 31, 2022 - 34.4%). Management uses this ratio as a key indicator in managing the REIT's capital.

In addition to the above key ratio, the REIT's debt has various covenants calculated as defined within these agreements. The REIT monitors these covenants and was in compliance as at and for the years ended December 31, 2023 and December 31, 2022.

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

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 three tenants which individually account for more than 5% of the rentals from investment properties of the REIT: Hess Corporation, New York City Department of Health and Giant Eagle, Inc. Hess Corporation and New York City Department of Health both have a public debt rating that is rated with at least a BBB- Stable rating by a recognized rating agency.

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

	Note	**December 31 2023**	December 31 2022
Mortgages receivable	*6*	**$166,077**	$169,190
Accounts receivable	*6*	**5,905**	5,318
		$171,982	$174,508

(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.

The REIT manages liquidity risk by:

- Ensuring appropriate unsecured term loans and lines of credit are available. As at December 31, 2023, the consolidated amount available under its lines of credit was $886,502 (note 8(d));
- Maintaining a large unencumbered asset pool. As at December 31, 2023, there were 85 unencumbered properties with a fair value of $4,223,082; 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.

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

The REIT's obligations are as follows:

	Note	**2024**	Thereafter	Total
Debt[(1)]	*8*	**$553,806**	$3,141,531	$3,695,337
Accounts payable and accrued liabilities[(2)]	*11*	**316,476**	17,886	334,362
		$870,282	$3,159,417	$4,029,699

(1) Amounts only include principal repayments.
(2) Excludes options payable.

(c) Market risk:

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

(i) Currency risk:

Foreign exchange risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. A portion of the REIT's properties are located in the United States, resulting in the REIT being subject to foreign currency fluctuations which may impact its financial position and results. In order to mitigate the foreign exchange risk, the REIT's debt on U.S. properties are also denominated in U.S. dollars to act as a natural hedge. In addition, the REIT has entered into a foreign exchange hedge to fix the foreign exchange rate at $1.38 on U.S. $10,000, monthly.

A $0.10 weakening of the U.S. dollar against the average Canadian dollar exchange rate of $1.35 for the year ended December 31, 2023 (December 31, 2022 - $1.30), as well as the Canadian dollar exchange rate as at December 31, 2023 of $1.32 (December 31, 2022 - $1.36), would have decreased net income by approximately $1,700 (December 31, 2022 - decreased by $33,700) and decreased other comprehensive income (loss) by approximately $198,000 (December 31, 2022 - decreased by $193,000). 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, 2023, the percentage of fixed rate debt to total debt was 91.7% (December 31, 2022 - 99.5%). 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, 2023, lines of credit of $304,710 and mortgages payable of nil (December 31, 2022 - $12,500 and 6,470, respectively) are subject to variable interest rates. An increase in interest rates of 100 basis points for the year ended December 31, 2023 would have decreased net income by approximately $3,000 (December 31, 2022 - decreased by $160). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

As at December 31, 2023, there were no debentures payable or term loans subject to variable interest rates (December 31, 2022 - nil).

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

(d) Fair value measurement:

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

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

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

(ii) Fair value of assets and liabilities:

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

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

December 31, 2023	*Note*	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Carrying value**
Assets measured at fair value:						
Investment properties	*3*	**$—**	**$—**	**$7,811,543**	**$7,811,543**	**$7,811,543**
Properties under development	*3*	**—**	**—**	**1,074,819**	**1,074,819**	**1,074,819**
Assets classified as held for sale	*5*	**—**	**—**	**293,150**	**293,150**	**293,150**
Derivative instruments	*6*	**—**	**29,919**	**—**	**29,919**	**29,919**
Assets for which fair values are disclosed:						
Mortgages receivable	*6*	**—**	**—**	**162,654**	**162,654**	**166,077**
		—	**29,919**	**9,342,166**	**9,372,085**	**9,375,508**
Liabilities measured at fair value:						
Exchangeable units	*9*	**(177,944)**	**—**	**—**	**(177,944)**	**(177,944)**
Derivative instruments	*11*	**—**	**(1,229)**	**—**	**(1,229)**	**(1,229)**
Liabilities for which fair values are disclosed:						
Mortgages payable	*8(a)*	**—**	**(1,382,206)**	**—**	**(1,382,206)**	**(1,459,163)**
Debentures payable	*8(b)*	**—**	**(1,263,671)**	**—**	**(1,263,671)**	**(1,297,960)**
Unsecured term loans	*8(c)*	**—**	**(596,967)**	**—**	**(596,967)**	**(625,000)**
Lines of credit	*8(d)*	**—**	**(306,793)**	**—**	**(306,793)**	**(304,710)**
		(177,944)	**(3,550,866)**	**—**	**(3,728,810)**	**(3,866,006)**
		($177,944)	**($3,520,947)**	**$9,342,166**	**$5,643,275**	**$5,509,502**

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

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

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.

	2023	2022
Salaries and short-term employee benefits	**($8,410)**	($8,126)
Unit-based compensation	**1,073**	(5,512)
	($7,337)	($13,638)

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.

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

(a) Operating segments:

Real estate assets by reportable segment as at December 31, 2023 and December 31, 2022 were as follows:

December 31, 2023	**Residential**	**Industrial**	**Office**	**Retail**	**Total**
Number of investment properties	**24**	**70**	**23**	**272**	**389**
Real estate assets:					
Investment properties	**$3,668,856**	**$1,473,037**	**$3,549,406**	**$1,561,406**	**$10,252,705**
Properties under development	**740,114**	**430,098**	**11,030**	**29,212**	**1,210,454**
	4,408,970	**1,903,135**	**3,560,436**	**1,590,618**	**11,463,159**
Less: assets classified as held for sale	**—**	**(60,650)**	**(232,500)**	**—**	**(293,150)**
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	**(1,356,620)**	**(39,833)**	**—**	**(887,194)**	**(2,283,647)**
	$3,052,350	**$1,802,652**	**$3,327,936**	**$703,424**	**$8,886,362**

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

Net operating income by reportable segment for the years ended December 31, 2023 and December 31, 2022 was as follows:

	Residential	**Industrial**	**Office**	**Retail**	**Sub-total**	**Less: Equity Accounted Investments**	**Year ended December 31, 2023**
Rentals from investment properties	**$285,625**	**$97,866**	**$473,657**	**$140,702**	**$997,850**	**($150,704)**	**$847,146**
Property operating costs	**(120,461)**	**(22,812)**	**(158,944)**	**(39,360)**	**(341,577)**	**41,035**	**(300,542)**
Net operating income	**$165,164**	**$75,054**	**$314,713**	**$101,342**	**$656,273**	**($109,669)**	**$546,604**

	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

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

(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 2023	December 31 2022
Real estate assets:		
Canada	**$4,704,626**	$5,113,057
United States	**6,758,533**	7,079,284
	11,463,159	12,192,341
Less: Assets classified as held for sale	**(293,150)**	(294,028)
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	**(2,283,647)**	(2,218,218)
	$8,886,362	$9,680,095

	2023	2022
Rentals from investment properties:		
Canada	**$478,316**	$493,423
United States	**519,534**	471,529
	997,850	964,952
Less: REIT's proportionate share of rentals relating to equity accounted investments	**(150,704)**	(130,312)
	$847,146	$834,640

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

22. Income tax recovery (expense):

	2023	2022
Income tax computed at the Canadian statutory rate of nil applicable to the REIT for 2023 and 2022	**$—**	$—
Current U.S. income tax expense	**(1,802)**	(1,329)
Deferred income tax (expense) recovery applicable to U.S. Holdco	**32,345**	(100,108)
Income tax (expense) recovery in the determination of net income	**$30,543**	($101,437)

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 24.0% (December 31, 2022 - 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 2023	December 31 2022
Deferred tax assets:		
Net operating losses	**$93,622**	$84,420
Accounts payable and accrued liabilities	**2,732**	1,386
	96,354	85,806
Deferred tax liabilities:		
Investment properties	**362,581**	427,149
Equity accounted investments	**170,263**	141,705
Other assets	**724**	—
	533,568	568,854
Deferred tax liability	**($437,214)**	($483,048)

The change in deferred tax liability is the result of deferred income tax recovery of $32,345 (2022 - expense of $100,108) and a foreign currency translation gain of $13,489 (2022 - loss of $32,439) recognized in other comprehensive income (loss).

As at December 31, 2023, U.S. Holdco had accumulated net operating losses available for carryforward for U.S. income tax purposes of $390,380 (December 31, 2022 - $355,421). $39,239 of the net operating losses will expire between 2031 and 2032 (December 31, 2022 - $31,774 expiring between 2031 and 2032). Net operating losses arising after December 31, 2017 do not generally expire under current U.S. tax legislation. The deductible temporary differences do not generally expire under current tax legislation.

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

23. Commitments and contingencies:

(a) In the normal course of operations, the REIT has issued letters of credit in connection with developments, financings, operations and acquisitions. As at December 31, 2023, the REIT has outstanding letters of credit totalling $43,018 (December 31, 2022 - $42,148), including $20,000 (December 31, 2022 - $20,680) which has been pledged as security for certain mortgages payable. The letters of credit may be secured by certain investment properties.

(b) The REIT has previously provided guarantees on behalf of third parties, including co-owners. As at December 31, 2023, the REIT issued guarantees amounting to $6,749, which expires in 2026 (December 31, 2022 - $89,122, which expired in 2023), relating to the co-owner's share of mortgage liability.

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 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, 2023, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, was $208,803, which expire between 2024 and 2030 (December 31, 2022 - $215,680, which expire between 2024 and 2030). In January 2024, the REIT was released from $37,389 of these guarantees.

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, 2023, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, was $89,322, which expire between 2024 and 2027 (December 31, 2022 - $91,319, which expire between 2024 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:

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.

The following are the REIT's subsidiaries:

		Ownership interest	
		December 31	December 31
Name of Entity	Place of Business	**2023**	2022
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 2024, the REIT redeemed all of its $350,000 outstanding 3.369% Series N Series Debentures.

STRONG AND SKILLFUL BOARD WITH UNITHOLDER ALIGNMENT

BOARD MEMBERS

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[2]
Manager & Founder, YAD Investments Limited

STEPHEN GROSS[3]
Principal, Initial Corporation

BRENNA HAYSOM[2,3]
Chief Executive Officer, Rally Labs

JULI MORROW
Partner, Goodmans LLP

DONALD CLOW[1,2,3]
Independent Lead Trustee

LEONARD ABRAMSKY[1]
President, The Dunloe Group Inc.

LINDSAY BRAND[3]
Corporate Director, Real Estate Investor & Advisor

Majority Independent Board | 10-Year Term Limit | 40% 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 $0.70 per Unit during 2023 (including a $0.10 per Unit special cash distribution to unitholders of record on December 29, 2023). The REIT also made a special distribution to unitholders of record on December 29, 2023 of $0.52 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 ($0.52 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 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
Toronto, Ontario, Canada, M3K 1N4

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