



**H&R Real Estate Investment Trust
2019 Annual Report**



The Bow, Calgary



Orchard Park, Kelowna

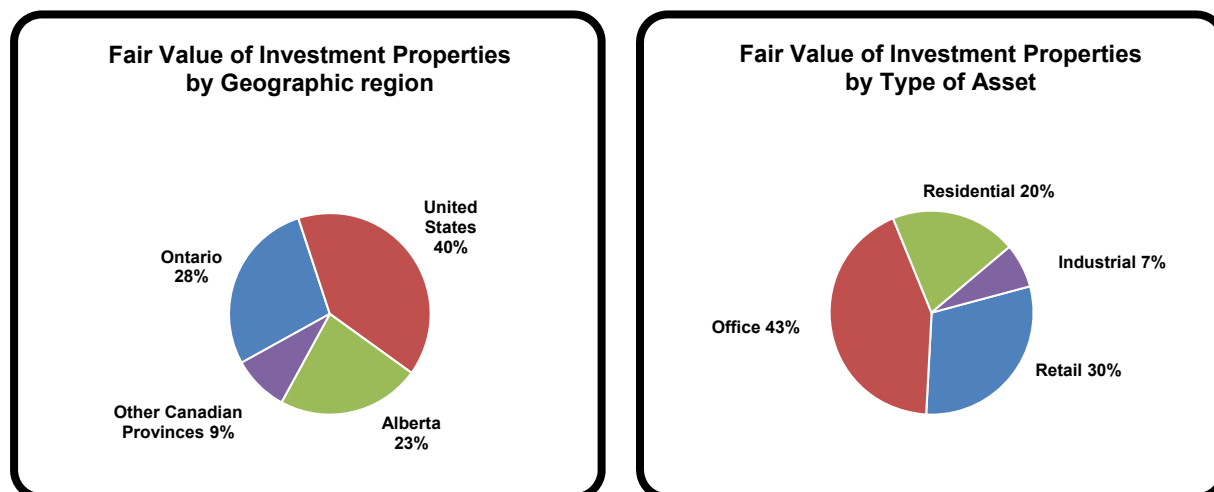


Airport Road, Brampton – Sleep Country

H&R Profile

H&R REIT is one of Canada's largest real estate investment trusts with total assets of approximately \$14.5 billion at December 31, 2019. H&R REIT has ownership interests in a North American portfolio of high quality office, retail, industrial and residential properties comprising over 41 million square feet.

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



Primary Objectives

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

Stability and Growth through Discipline

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



February 13, 2020

Fellow Unitholders,

Over the past several years, management and the board of H&R REIT (“H&R”) have been actively reviewing the REITs operations and strategy, with the objectives of improving the quality and value of the REITs portfolio, and improving the profile of an investment in H&R. We have previously discussed many of the changes we have made including with respect to governance, capital recycling, enhancing the REIT’s internal growth prospects, and simplifying and streamlining the REIT’s portfolio.

In 2020 we plan to make further progress in the areas of diversity and our environmental, social and governance practices (ESG). In 2019 we formally adopted our diversity policy including a target for board composition reflecting a minimum target for women to comprise at least 25% of our board members by the 2021 annual general meeting, and a sustainability policy focused on improving the environmental footprint of our property portfolio, including through increasing energy efficiency and reducing waste, consumption and pollution. H&R’s commitment is to build on our established policies, and enhance the disclosure of our successes on these fronts.

Property Portfolio

In 2019 H&R took advantage of robust property market conditions to further our strategic priorities of streamlining and simplifying our portfolio, recycling capital into higher growth properties and improving the investment profile of H&R.

Notable accomplishments in 2019 include the sale of The Atrium, a 1.1 million square foot office and retail complex for \$640 million, (approximately 86% higher than our 2011 purchase price); investing approximately U.S. 260 million into our pipeline of value creating residential and mixed use developments in the United States; significant lease extensions with Bell Canada, H&R’s second largest tenant; and the acceleration of our industrial development pipeline, including the first phase of our 2.7 million square foot Caledon development project. As noted in our previous Letter to Unitholders in 2019, we also advanced our intensification pipeline of projects within our existing portfolio, including Dufferin Grove Village at Dufferin Mall, which will include over 1,100 residential units, and redevelopment of our downtown Toronto properties on Wellington, Yonge and Front Streets.

The net result of all the REIT’s capital recycling over the past five years is a changed portfolio profile, with our high-quality multi-residential properties accounting for 23% of fair value of investment properties including developments, up from 1% at year end 2014. Over the same period, retail has reduced from 39% to 28%, office has reduced from 51% to 41%, and industrial has remained at approximately 8% of assets, respectively. Geographically, our portfolio has shifted significantly towards high-growth Sun Belt markets including Dallas, Austin, San Antonio, Orlando, Tampa and Charlotte, as well as gateway cities including New York City, Miami, San Francisco, Los Angeles, and Seattle, with the portfolio’s United States market exposure increasing to 42%, up from 23% five years earlier. Accordingly, Canadian markets declined from 77% to 58% with Ontario accounting for 28% today.

With the considerable changes to our portfolio over the past five years, we believe we have significantly enhanced the REIT’s internal growth profile, including higher same-asset property operating income



prospects, exciting development investments under way, as well as intensification opportunities in the planning stages.

In 2019, Jackson Park, our flagship development in New York City was completed, several other projects were advanced including River Landing in Miami, and added new projects to the pipeline. We expect these investments, which amounted to \$829 million at cost as at December 31, 2019, to contribute meaningfully to growth in H&R's net asset value over the next few years.

Outlook

We are excited about H&R's future prospects. Our portfolio is concentrated in major North American population centres with strong demographic and economic growth prospects. Our balance sheet is strong, and we expect to benefit from significant development completions, contractual rent increases and positive leasing spreads.

Management and the board remain focused on increasing unitholder value. Improving the profile of an investment in H&R units is a goal we have outlined in recent years, and while we believe we have made progress, we continue to see our units trading at a discount to net asset value. We remain committed to narrowing this discount, addressing factors that have contributed to a higher cost of equity for H&R, and pursuing further opportunities to simplify the investment profile of H&R. Management, members of the board and their families are strongly aligned with unitholders as we work towards this goal, collectively owning more than \$400 million of equity in H&R REIT.

H&R has considerable scale with many advantages, including high-quality and well located assets, a strong and diverse portfolio of credit tenants, long-term leases, a strong and flexible balance sheet with low leverage, a large pool of unencumbered properties and the scale and stability provided by interests in 455 properties across 41 million square feet. These are all attributes we intend to leverage as we advance the interests of unitholders in 2020.

We would like to thank our employees who have all contributed to the success of the REIT as we chart the course for H&R through the 2020s.

Respectfully,

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

Ronald C. Rutman
Chairman

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

Thomas J. Hofstedter
President & Chief Executive Officer

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

For the year ended December 31, 2019

Dated: February 13, 2020

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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, 2019 includes material information up to February 13, 2020. This MD&A also includes the results of operations of H&R Finance Trust ("Finance Trust" and together with H&R, the "Trusts") on a combined basis, up to August 31, 2018, the date of termination of Finance Trust (refer to "Overview" on page 3). Financial data for the years ended December 31, 2019 and 2018 has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A should be read in conjunction with the financial statements of the REIT and appended notes for the year ended December 31, 2019 ("REIT's Financial Statements"). The REIT's Financial Statements are defined to refer to the financial statements for the REIT or the Trusts 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. For the periods prior to August 31, 2018, references to Units (as defined on page 3) or calculations involving Units should be read as referring to Stapled Units.

FORWARD-LOOKING DISCLAIMER

Certain information in this MD&A contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, among others, statements made or implied under the headings "Assets", "Segmented Information", "Liquidity and Capital Resources", "Risks and Uncertainties" and "Subsequent Events" relating to H&R's objectives, beliefs, plans, estimates, projections and intentions and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts, including the statements made under the heading "Summary of Significant 2019 Activity" including with respect to H&R's future plans, including significant development projects, H&R's expectation with respect to the activities of its development properties, including redevelopment of existing properties such as Dufferin Mall and 145 Wellington St. W. and building of new properties, the annual base rent from former Target and Sears space in 2020, the expected Brownfield tax credit to be received from Jackson Park, the expected total cost, stabilized property operating income, levered yield on the REIT's expected net cash investment and yield on budgeted cost from Jackson Park, and the anticipated projected amounts of net income and FFO in 2020 resulting from Jackson Park, the expected increase in H&R's mortgage receivable, the timing of the construction on the REIT's industrial lands, the expected yield on cost from the REIT's development properties, the timing of construction, the timing of stabilization, the timing of occupancy, the expected total cost and stabilized property operating income from River Landing, the expected timing of construction and total budget for Sunrise, the impact of the replacement of tenants, expected capital and tenant expenditures, the expected property operating income generated by the Residential segment's five properties in lease-up, the REIT's proforma debt to total assets, capitalization rates used to estimate fair values, management's expectations regarding future distributions, management's belief that H&R has sufficient funds for future commitments and management's expectation to be able to meet all of its 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. Factors that could cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, the general economy is stable; local real estate conditions are stable; interest rates are relatively stable; and equity and debt markets continue to provide access to capital. Additional risks and uncertainties include, among other things, risks related to: real property ownership; credit risk and tenant concentration; lease rollover risk; interest and other debt-related risk; construction risks; currency risk; liquidity risk; financing credit risk; cyber security risk; environmental and climate change risk; co-ownership interest in properties; joint arrangement and investment risks; unit price risk; availability of cash for distributions; ability to access capital markets; dilution; unitholder liability; redemption right risk; risks relating to debentures and the inability of the REIT to purchase senior debentures on a change of control; tax risk, U.S. tax reform and tax consequences to U.S. holders. 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, 2020 and the REIT, except as required by applicable Canadian law, assumes no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances.

NON-GAAP FINANCIAL MEASURES

The REIT's Financial Statements are prepared in accordance with IFRS. However, in this MD&A, a number of measures are presented that are not measures under generally accepted accounting principles ("GAAP") in accordance with IFRS. These measures, as well as the reasons why management believes these measures are useful to investors, are described below.

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

(a) The REIT's proportionate share

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

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

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

Same-Asset property operating income (cash basis) is a non-GAAP financial measure used by H&R to assess period-over-period performance for properties owned and operated since January 1, 2018. Same-Asset property operating income (cash basis) adjusts property operating income to include property operating income from equity accounted investments on a proportionately consolidated basis at H&R's ownership interest of the applicable investment and excludes two non-cash items:

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

It further excludes:

- Acquisitions, business combinations, dispositions and transfers of properties under development to investment properties during the two-year period ended December 31, 2019 (collectively, "Transactions").

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

(c) Funds from operations ("FFO") and Adjusted Funds from Operations ("AFFO")

FFO and AFFO are non-GAAP financial measures widely used in the real estate industry as a measure of operating performance particularly by those publicly traded entities that own and operate investment properties. H&R presents its consolidated FFO and AFFO calculations in accordance with the Real Property Association of Canada (REALpac) February 2019 *White Paper on Funds From Operations and Adjusted Funds From Operations for IFRS*. FFO provides an operating performance measure that when compared period over period, reflects the impact on operations of trends in occupancy levels, rental rates, property operating costs, acquisition activities and finance costs, that is not immediately apparent from net income determined in accordance with IFRS. Management believes FFO to be a useful earnings measure for investors as it adjusts net income for items that are not recurring including gain (loss) on sale of real estate assets, as well as non-cash items such as the fair value adjustments on investment properties. AFFO is calculated by adjusting FFO for the following items: straight-lining of contractual rent, capital expenditures, tenant expenditures and leasing costs. Although capital and tenant expenditures can vary from quarter to quarter due to tenant turnovers, vacancies and the age of a property, H&R has elected to deduct actual capital and tenant expenditures in the period. This may differ from others in the industry that deduct a normalized amount of capital and tenant expenditures, based on historical activity, in their AFFO calculation. Capital expenditures excluded and not deducted in the calculation of AFFO relate to capital expenditures which generate a new investment stream, such as the construction of a new retail pad during property expansion or intensification, development activities or acquisition activities. H&R's method of calculating FFO and AFFO may differ

from other issuers' calculations. FFO and AFFO should not be construed as an alternative to net income 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 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 to FFO and AFFO.

(d) **Interest coverage ratio**

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

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

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

(f) **Payout ratio per Unit as a % of FFO**

Payout Ratio per Unit as a % of FFO is a non-GAAP measure which assesses the REIT's ability to pay distributions and is calculated by dividing distributions per Unit (or Stapled Unit, where applicable) by FFO per Unit (or Stapled Unit, where applicable) for the respective period. H&R uses this ratio amongst other criteria to evaluate the REIT's ability to maintain current distribution levels or increase future distributions as well as assess whether sufficient cash is being held back for operational and capital 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 per Unit as a % of FFO.

(g) **Net Asset Value ("NAV") per Unit**

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

OVERVIEW

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

On August 31, 2018, the REIT and Finance Trust effected a reorganization ("Reorganization") by way of plan of arrangement involving the REIT, Finance Trust and certain of the REIT's subsidiaries resulting in, among other things, (i) Finance Trust transferring debt owed to it by H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco") to the REIT for nil consideration and (ii) unitholders subsequently transferring their Finance Trust units to the REIT for nominal consideration and retaining their Units. Following these transactions, Finance Trust was terminated, resulting in the Units no longer being stapled to units of Finance Trust and unitholders holding only REIT Units.

H&R has two primary objectives:

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

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

H&R's strategy to mitigate risk includes diversification both by asset class and geographic location. H&R invests in four real estate asset classes which management views as four separate operating segments. H&R invests in office, retail, industrial and residential properties and acquires properties both in Canada and the United States. H&R's Office segment, the largest of the four segments, holds a portfolio of single tenant and multi-tenant office properties across Canada and in select markets in the United States. H&R's Retail segment operates as Primaris, and holds a portfolio of enclosed shopping centres, single tenant retail properties and multi-tenant retail plazas throughout Canada and 16 single tenant retail properties in the United States. In addition, it also holds a 33.6% interest in Echo Realty LP ("ECHO"), a privately held real estate and development company which focuses on developing and owning a core portfolio of grocery anchored shopping centres in the United States. H&R's Industrial segment holds a portfolio of single tenant and multi-tenant industrial properties across Canada and four single tenant industrial properties in the United States. H&R's Residential segment operates as Lantower Residential, a wholly-owned subsidiary of H&R, and focuses on acquiring and developing multi-family residential rental properties in the United States. Management assesses the results of these operations separately. Effective January 1, 2019, the REIT has combined its previous three retail segments (Primaris, H&R Retail, and ECHO) into one Retail segment. The comparative period figures have been re-stated to reflect this change in operating segments.

SECTION II

FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars except per Unit amounts)	December 31, 2019	December 31, 2018	December 31, 2017
Total assets	\$14,483,342	\$14,691,009	\$14,558,863
Debt to total assets per the REIT's Financial Statements ⁽¹⁾	44.4%	44.6%	44.6%
Debt to total assets at the REIT's proportionate share ⁽¹⁾⁽²⁾	47.7%	47.1%	46.6%
Unitholders' equity	7,043,917	7,200,100	7,179,763
Units outstanding (in thousands of Units)	286,690	285,678	291,320
Unitholders' equity per Unit	\$24.57	\$25.20	\$24.65
NAV per Unit ⁽²⁾⁽³⁾	\$25.79	\$26.30	\$25.57
Unit price	\$21.10	\$20.65	\$21.36

	Three months ended December 31			Year ended		
	2019	2018	% Change	2019	2018	% Change
Rentals from investment properties	\$282,221	\$297,416	(5.1%)	\$1,149,450	\$1,176,558	(2.3%)
Property operating income	184,775	192,009	(3.8%)	710,975	733,932	(3.1%)
Same-Asset property operating income (cash basis) total in Canadian dollars ⁽²⁾	177,950	183,111	(2.8%)	715,779	715,676	-%
Net income from equity accounted investments	36,958	148,165	(75.1%)	31,201	169,409	(81.6%)
Net income	163,402	61,115	167.4%	340,289	337,918	0.7%
FFO ⁽²⁾	133,687	130,470	2.5%	529,118	525,696	0.7%
Weighted average number of basic Units for FFO ⁽²⁾	301,573	301,200	0.1%	301,487	302,605	(0.4%)
FFO per basic Unit ⁽²⁾	\$0.44	\$0.43	2.3%	\$1.76	\$1.74	1.1%
Distributions paid per Unit	\$0.35	\$0.35	-%	\$1.38	\$1.38	-%
Payout ratio per Unit as a % of FFO ⁽²⁾	77.9%	79.7%	(1.8%)	78.6%	79.4%	(0.8%)
Interest coverage ratio ⁽²⁾	3.18	3.06	3.9%	3.05	3.03	0.7%

Net income is reconciled to FFO. Refer to page 31.

- ⁽¹⁾ Debt includes mortgages payable, debentures payable, unsecured term loans and lines of credit.
⁽²⁾ These are non-GAAP measures. Refer to the "Non-GAAP Financial Measures" section of this MD&A.
⁽³⁾ Refer to page 20 for a detailed calculation of NAV per Unit.

KEY PERFORMANCE DRIVERS

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

<i>OPERATIONS</i>		Office	Retail	Industrial	Residential	Total
<i>Occupancy as at December 31</i>	2019	98.6% ⁽³⁾	91.5% ⁽⁴⁾	97.2% ⁽⁵⁾	90.7% ⁽⁶⁾	94.5%
	2018	98.5%	90.0%	98.5%	88.0% ⁽⁶⁾	94.0%
<i>Occupancy – Same-Asset as at December 31⁽¹⁾</i>	2019	98.6% ⁽³⁾	91.5%	97.2%	92.4%	95.0%
	2018	98.6%	90.0%	98.4%	91.9%	94.7%
<i>Average contractual rent per sq.ft. for the year ended December 31-Canadian properties⁽²⁾</i>	2019	\$26.13	\$21.33	\$6.80	N/A	\$18.36
	2018	\$26.41	\$21.68	\$6.86	N/A	\$18.80
<i>Average contractual rent per sq.ft. for the year ended December 31-U.S. properties (USD)⁽²⁾</i>	2019	\$32.15	\$19.08	\$3.76	\$21.92 ⁽⁷⁾	\$21.86
	2018	\$33.14	\$17.61	\$3.37	\$16.94	\$18.60
<i>Average remaining term to maturity of leases as at December 31 (in years)</i>	2019	12.4	6.6	6.7	N/A	9.6
	2018	11.1	6.7	6.7	N/A	9.0
<i>Average remaining term to maturity of mortgages payable as at December 31 (in years)</i>	2019	3.4	4.5	6.0	8.5	5.7
	2018	4.1	4.7	6.5	8.3	5.5

(1) Same-Asset refers to those properties owned by H&R for the 2-year period ended December 31, 2019.

(2) Excludes properties sold in their respective year.

(3) Committed occupancy for the Office segment (which includes signed leases for currently vacant space) would be 99.6%.

(4) Committed occupancy for the Retail segment (which includes signed leases for currently vacant space) would be 94.1%.

(5) Committed occupancy for the Industrial segment (which includes signed leases for currently vacant space) would be 98.9%.

(6) Excluding properties in lease up, occupancy for the Residential segment would have been 92.4% and 92.5% as at December 31, 2019 and 2018, respectively.

(7) In Q1 2019, Jackson Park was transferred from properties under development to investment properties which was the primary reason for average contractual rent per sq.ft. in U.S. dollars increasing from \$16.94 for the year ended December 31, 2018 to \$21.92 for the year ended December 31, 2019.

SUMMARY OF SIGNIFICANT 2019 ACTIVITY

During 2019, H&R has continued to actively reallocate capital through property dispositions to fund value-creating developments, expand its residential rental platform and strengthen the balance sheet. The REIT has completed approximately \$1.8 billion of asset sales over the past two years, substantially repositioning the portfolio, enhancing the internal growth profile and reducing leverage.

Developments

H&R's active development pipeline in the United States is currently comprised of six residential developments and one mixed-used development. As at December 31, 2019, the total development budget was U.S. \$713.1 million, of which U.S. \$452.9 million was included in properties under development with U.S. \$260.1 million of budgeted costs remaining to complete, in each case at the REIT's proportionate share.

The largest current development project is River Landing, an urban in-fill mixed use development site in Miami, FL, which is adjacent to the Health District with approximately 1,000 feet of waterfront on the Miami River, two miles from downtown Miami. River Landing includes approximately 373,000 square feet of retail space, approximately 118,000 square feet of office space and 528 residential rental units. Construction is nearing completion with occupancy scheduled to commence in Q2 2020. The total cost of the project is expected to be approximately U.S. \$467.9 million. As at December 31, 2019, approximately U.S. \$367.0 million had been invested in the development.

In June 2019, construction commenced on the first phase of a 2.7 million square foot industrial development in Caledon, ON. The first phase consists of three buildings, which will total approximately 526,000 square feet upon completion. Subsequent to December 31, 2019, H&R completed a 10-year lease with Deutsche Post AG to occupy the largest of the three buildings totalling 342,821 square feet. The total budget for these three buildings is \$83.0 million.

In June 2019, H&R acquired a 100% leasehold interest to develop up to 670 residential rental units in Orlando, FL, known as "Sunrise". Sunrise is located within the heart of the I-4 Tourism Corridor in Orlando and is a seven-minute drive from Walt Disney World. Construction on Phase 1 is expected to commence in Q1 2020 with completion expected by Q4 2021. The total budget for Phase 1, which will consist of 321 residential rental units, is expected to be U.S. \$61.8 million.

Proposed Developments

In July 2019, H&R submitted combined applications for rezoning and for the redevelopment of the surface parking lots, drive-through restaurants and strip plaza that currently occupy the north end of Dufferin Mall in Toronto, ON to create "Dufferin Grove Village". The proposed project would replace the surface parking with four residential buildings over two blocks. Divided by a new road, the blocks would form the backdrop for Dufferin Commons, a new public park. The west block would support two residential buildings of 35 and 39 storeys, and the east block would support two residential buildings of 14 and 23 storeys. Combined, they would introduce approximately 1,135 residential units to the site.

In August 2019, H&R submitted a rezoning application for the redevelopment of 145 Wellington St. W., in Toronto, ON which is currently a 13-storey office building. The proposed project would redevelop the subject site with a full office replacement in a new modern 13-storey podium, topped with a 52-storey residential tower, for an overall building height of 65 storeys. A total of 157,581 square feet of office space and 1,722 square feet of grade-related retail is proposed, along with 476 new residential units comprising 384,971 square feet of residential space. Of these residences, approximately 57% will be larger, family-oriented two or three-bedroom units.

In August 2019, H&R acquired a 50% ownership interest in excess lands, held for future re-development, at 3791 Kingsway in Burnaby, BC for \$6.7 million. This property is located adjacent to the REIT's 3777 Kingsway office tower of which it has a 50% ownership interest.

In September 2019, H&R acquired a 100% interest in approximately 8.4 acres of land for the development of 201 residential rental units in Tampa, FL ("Pinellas") for U.S. \$6.0 million.

For a complete list of H&R's current development projects, refer to page 13 of this MD&A.

Office

In January 2019, H&R sold a 79,570 square foot single tenanted U.S. office property in Lithia Springs, GA for gross proceeds of U.S. \$69.8 million, which was acquired in May 2011 for U.S. \$60.8 million. The mortgage of U.S. \$43.7 million was repaid at closing.

In June 2019, H&R sold The Atrium, a 1.1 million square foot office and retail complex in Toronto, ON for \$640.0 million. The Atrium was acquired in June 2011 for \$344.8 million. The sale price equated to a capitalization rate of 4.56%. The property was unencumbered and H&R provided the purchaser with a vendor take-back mortgage of \$256.0 million, bearing interest at an annual rate of 4.56% which was repaid on January 9, 2020. The net proceeds from the sale were used to repay debt including the repayment on maturity of H&R's Series M senior debentures on July 23, 2019.

H&R extended its office leases with Bell Canada at six office properties in Toronto, Montreal and Ottawa totaling 2,415,515 square feet for an additional 10 years effective January 1, 2019. As at December 31, 2019 the weighted average lease term to maturity for these leases is 15.6 years with annual contractual rental increases of 1.5% per annum. The cash rent received in 2019 decreased by \$7.3 million compared to 2018 while the straight lining of the contractual rents added \$10.1 million resulting in a net \$0.01 positive impact to 2019 FFO per Unit. H&R will be responsible for certain capital expenditures at these properties. These lease extensions provide greater certainty and commitment to these properties. The new rental arrangement has been reset at current market levels and the built-in contractual rental growth will contribute meaningfully to H&R's organic growth for the next 15 years.

H&R extended two Calgary office leases with AltaLink, L.P. to 20-year terms effective March 1, 2019. Although the cash rent did not change as a result of the extended leases, the leases provide for future contractual rental escalations every three years. H&R's office portfolio in Calgary has a 100% occupancy rate with an average lease term to maturity of 17.0 years.

H&R has made significant leasing progress in its office portfolio having achieved a committed occupancy rate of 99.6% as at December 31, 2019.

Industrial

In June 2019, H&R sold its 50.5% ownership interests in two U.S. industrial properties (previously held through an equity accounted investment) for U.S. \$20.1 million and repaid the two respective mortgages aggregating U.S. \$13.8 million upon closing. In addition, H&R purchased the remaining 49.5% interest in 510 E. Courtland St., Morton, IL for U.S. \$2.2 million. As H&R owns 100% of this property, it is now consolidated in the REIT's Financial Statements.

In August 2019, H&R signed a 12-year lease with Amazon.com, Inc. ("Amazon") at 7575 Brewster Ave., Philadelphia, PA commencing September 1, 2019 for 82,788 square feet, at H&R's ownership interest. The previous tenant vacated the premises in July 2019.

In September 2019, H&R sold its 50% ownership interest in a 139,694 square foot multi-tenanted industrial property in Kanata, ON for \$24.3 million, at H&R's ownership interest.

In November 2019, H&R signed a 10-year lease with Amazon at 2121 Cornwall Rd., Oakville, ON commencing January 1, 2020 for 157,083 square feet, at H&R's ownership interest. The previous tenant had vacated the premises in April 2019.

As at December 31, 2019, a 363,983 square foot industrial property in Boucherville, QC was classified as held for sale for \$17.1 million at H&R's ownership interest, pursuant to the exercise of a tenant option to purchase at a pre-determined price.

Committed occupancy for the Industrial segment was 98.9% compared to actual occupancy of 97.2% as at December 31, 2019.

Residential

In Q1 2019, Jackson Park, the 1,871 luxury residential rental unit development in Long Island City, NY in which H&R has a 50% ownership interest, reached substantial completion and was transferred from properties under development to investment properties. Average occupancy was 85.8% for 2019 and occupancy as at December 31, 2019 was 96.0%. Stabilized occupancy was achieved in Q3 2019.

In September 2019, H&R, together with its partners, secured a U.S. \$1.0 billion interest-only first mortgage for Jackson Park (U.S. \$500.0 million, at H&R's ownership interest) at a fixed rate of 3.25% for a 10-year term. Upon closing, Jackson Park's existing U.S. \$640.0 million construction facility was discharged and the outstanding balance prior to this refinancing was repaid. After closing costs, H&R received a cash distribution of U.S. \$194.8 million which was used to repay other debt.

Jackson Park's annualized unlevered yield on budgeted cost is expected to be 6.0%. The total cost projected is expected to be approximately U.S. \$580.7 million (at H&R's ownership interest). As part of the New York City Brownfield Cleanup Program, H&R expects to receive approximately U.S. \$49.9 million which will reduce the net budgeted cost to U.S. \$530.8 million. With the new financing in place, the REIT's levered yield on its expected net cash investment of U.S. \$30.8 million is approximately 50.4%.

In June 2019, H&R acquired 314 residential rental units at 3512 Grande Reserve Way in Orlando, FL at a purchase price, before transaction costs, of U.S. \$74.7 million which equates to U.S. \$238,000 per residential rental unit. The property was built in 2018.

In July 2019, H&R acquired 322 residential rental units at 2725 Reseda Place in Charlotte, NC at a purchase price, before transaction costs, of U.S. \$62.8 million which equates to U.S. \$195,000 per residential rental unit. The property was constructed in 2019 and occupancy was 47.2% upon acquisition. The property is currently in lease-up and is expected to be fully stabilized by Q3 2020.

In September 2019, H&R sold 12101 Fountainbrook Blvd., in Orlando, FL for U.S. \$77.0 million, which was acquired in April 2015 for U.S. \$53.3 million. The mortgage of U.S. \$38.3 million was repaid upon the sale.

As at December 31, 2019, the residential portfolio consisted of 24 properties comprising 8,443 residential rental units at H&R's ownership interest. The portfolio is comprised of 11 properties in Texas, seven in Florida, five in North Carolina and one in Long Island City, NY.

During the year ended December 31, 2019, there were five properties (excluding Jackson Park) in lease-up with a weighted average occupancy rate of 81.9%. As at December 31, 2019, one property has reached stabilization, one property is targeted for stabilization in Q1 2020, two properties are targeted for stabilization in Q3 2020 and one property is targeted for stabilization in Q4 2020. For the three months and year ended December 31, 2019, the properties in lease-up contributed U.S. \$2.8 million and U.S. \$8.7 million, respectively, to property operating income (excluding non-cash items) and they are expected to contribute U.S. \$13.5 million in 2020.

Subsequent to December 31, 2019, H&R sold two properties which were classified as held for sale as at December 31, 2019: (i) 12601 South Green Dr. in Houston, TX for U.S. \$23.9 million, which was acquired in November 2014 for U.S. \$16.7 million; and (ii) 8401 Memorial Lane in Plano, TX for U.S. \$66.0 million, which was acquired in February 2015 for U.S. \$52.3 million. The mortgage of U.S. \$38.0 million was assumed by the purchaser upon closing.

Retail

During 2019, H&R sold three Canadian retail properties totalling 105,776 square feet for gross proceeds of \$20.4 million.

During 2019, \$123.3 million was invested in redevelopment at Primaris enclosed shopping centre properties primarily relating to the redevelopment of the former Sears stores and one remaining Target store. As each store is part of an existing property, they continue to be classified as investment properties. During the three months and year ended December 31, 2019, H&R capitalized \$0.1 million and \$1.2 million, respectively, of property operating costs and \$1.3 million and \$5.3 million, respectively, of finance costs attributable to the former Target and Sears space.

For the three months and year ended December 31, 2019, the lease-up of the former Target and Sears space generated net rent of \$2.5 million and \$8.2 million, respectively, and these tenants are expected to contribute approximately \$12.5 million in 2020 and \$16.3 million in 2021.

Committed occupancy for the Retail segment was 94.1% compared to actual occupancy of 91.5% as at December 31, 2019.

Mortgages Receivable

In December 2019, H&R issued a mortgage receivable for U.S. \$124.1 million secured against 12.4 acres of land in Jersey City, NJ for a two-year term. The loan is expected to increase up to U.S. \$160.0 million, and bears interest at 10.0% per annum. The land is adjacent to Liberty State Park with views of downtown Manhattan and the Hudson River. The project is zoned for 1.7 million square feet of commercial space and 1,544 residential units, with a full residential development option encompassing 2,835 units. The location is accessible to multiple modes of transportation including the Grove Street PATH station 0.7 miles away with direct access to Manhattan (Penn Station and Wall St.) and an 11-minute ferry transit ride to Google's new Manhattan campus as well as access to Manhattan's lower west side. The REIT has an option to convert its loan into an 80% equity ownership interest.

Debt Highlights

As at December 31, 2019, debt to total assets was 44.4% compared to 44.6% as at December 31, 2018. Subsequent to December 31, 2019, the \$256.0 million mortgage receivable secured by The Atrium was received, reducing proforma debt to total assets to 43.4%. The weighted average interest rate of H&R's debt as at December 31, 2019 was 3.8% with an average term to maturity of 3.9 years.

Mortgages:

During 2019, H&R secured 10 new mortgages (excluding Jackson Park's mortgage described above) totalling \$229.1 million at a weighted average interest rate of 3.6% for an average term of 9.4 years and repaid eight mortgages totalling \$499.8 million at an interest rate of 4.4%.

Debentures:

In March 2019, H&R repaid all of its Series K senior debentures upon maturity for a cash payment of \$200.0 million.

In July 2019, H&R repaid all of its Series M senior debentures upon maturity for a cash payment of \$150.0 million.

Unsecured Term Loan:

In March 2019, H&R borrowed \$250.0 million by way of a new unsecured term loan maturing in March 2024. Through an interest rate swap, H&R fixed the interest rate at 3.3% per annum. This is H&R's third unsecured term loan which demonstrates H&R's creditworthiness and access to multiple sources of capital.

Lines of Credit:

In December 2019, H&R, through Primaris, extended the maturity date of its \$300.0 million secured operating facility which was originally due in July 2020 to December 2021.

As at December 31, 2019, H&R had \$290.6 million of unused borrowing capacity available under its lines of credit.

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, 2019	December 31, 2018
For each U.S. \$1.00	\$1.30 CAD	\$1.36 CAD

(in thousands of Canadian dollars)	December 31, 2019	December 31, 2018
Assets		
Real estate assets		
Investment properties	\$11,988,347	\$12,683,709
Properties under development	683,145	404,814
	12,671,492	13,088,523
Equity accounted investments	1,002,773	1,284,985
Assets classified as held for sale	135,673	110,940
Other assets	624,764	153,488
Cash and cash equivalents	48,640	53,073
	\$14,483,342	\$14,691,009
Liabilities and Unitholders' Equity		
Liabilities		
Debt	\$6,375,860	\$6,546,072
Exchangeable units	323,173	329,482
Deferred tax liability	409,381	392,214
Accounts payable and accrued liabilities	281,595	223,141
Liabilities classified as held for sale	49,416	-
	7,439,425	7,490,909
Unitholders' equity	7,043,917	7,200,100
	\$14,483,342	\$14,691,009

ASSETS**Real Estate Assets:**

Change in Investment Properties (in thousands of Canadian dollars)	REIT's Financial Statements	Plus: equity accounted investments	REIT's proportionate share⁽¹⁾
Opening balance, January 1, 2019	\$12,683,709	\$930,299	\$13,614,008
Acquisitions, including transaction costs	188,454	7,717	196,171
Dispositions	(749,830)	(52,527)	(802,357)
Transfer of investment properties to assets classified as held for sale	(116,805)	(12,872)	(129,677)
Operating capital:			
Capital expenditures	64,234	4,632	68,866
Leasing expenses and tenant inducements	44,756	1,484	46,240
Redevelopment (including capitalized interest)	130,409	8,669	139,078
Amortization of tenant inducements and straight-lining of contractual rents	4,807	496	5,303
Right-of-use asset ⁽²⁾	-	43,517	43,517
Transfer of properties under development that have reached substantial completion to investment properties	-	1,065,803	1,065,803
Fair value adjustment on real estate assets	(103,903)	(11,290)	(115,193)
Change in foreign exchange	(157,484)	(64,108)	(221,592)
Closing balance, December 31, 2019	\$11,988,347	\$1,921,820	\$13,910,167

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

⁽²⁾ The right-of-use asset in a leasehold interest was measured at an amount equal to the corresponding lease liability (refer to page 14 of this MD&A).

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

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

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

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2018 Acquisitions: Property	Year Built	Segment	Date Acquired	Number of Residential Rental Units	Purchase Price (\$ Millions) ⁽¹⁾	Ownership Interest Acquired
504 East Pettigrew St., Durham, NC	2018	Residential	Jun 1, 2018	305	\$98.9	100%
190 Goodrich Dr., Kitchener, ON ⁽²⁾	1980	Industrial	Jun 1, 2018	-	4.0	50%
15175 Integra Junction, Odessa, FL	2017	Residential	Jun 11, 2018	322	74.9	100%
14201 N. Interstate, 35 Frontage Rd., Austin, TX	2018	Residential	Sep 17, 2018	328	62.9	100%
3300-70th Ave., Leduc, AB ⁽³⁾	2018	Industrial	Oct 1, 2018	-	13.3	33.3%
6000 Elevate Circle, Cary, NC	2018	Residential	Oct 16, 2018	308	95.4	100%
6101 Ardrey Kell Rd., Charlotte, NC	2016	Residential	Dec 3, 2018	375	111.4	100%
Total				1,638	\$460.8	

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

⁽²⁾ Purchase price is stated at H&R's ownership interest. The square footage at H&R's ownership interest is 36,562.

⁽³⁾ Purchase price is stated at H&R's ownership interest. The square footage at H&R's ownership interest is 134,883.

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

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

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

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

⁽⁴⁾ Property consisted of 400 residential rental units.

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

2018 Dispositions: Property	Segment	Date Sold	Square Feet	Selling Price (\$ Millions) ⁽¹⁾	Ownership Interest Sold
7350 Catherine St., Windsor, ON	Retail	Jan 31, 2018	102,997	\$7.5	100%
1880 Matheson Blvd. E., Mississauga, ON ⁽²⁾	Industrial	Feb 20, 2018	194,657	31.3	50%
1377 The Queensway, Toronto, ON ⁽²⁾	Industrial	Feb 23, 2018	92,449	7.0	50%
411 1st Street, Calgary, AB ⁽²⁾	Office	Apr 10, 2018	353,140	53.5	50%
10300 Rue Henri Bourassa, St. Laurent, QC ⁽²⁾	Industrial	Apr 19, 2018	40,750	3.6	50%
U.S. Retail portfolio - 63 properties	Retail	June 2018	4,235,943	823.3	100%
380 Spinnaker Way, Vaughan, ON ⁽²⁾	Industrial	Jul 11, 2018	24,763	4.6	75%
650 Catarauqui Woods Dr., Kingston, ON ⁽²⁾	Industrial	Jul 31, 2018	88,328	4.8	50%
101 Granada Blvd., Sherwood Park, AB	Retail	Aug 1, 2018	44,158	13.3	100%
Total			5,177,185	\$948.9	

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

⁽²⁾ Square feet and selling price are based on the ownership interest disposed.

Investment Properties and Properties under Development by Segment and Region:

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

December 31, 2019							
Operating Segment (in millions of Canadian dollars)	REIT's Financial Statements			Equity Accounted Investments			REIT's proportionate share ⁽¹⁾
	Investment Properties	Properties Under Development	Sub Total	Investment Properties	Properties Under Development	Sub Total	
Office	\$5,988	\$7	\$5,995	\$ -	\$ -	\$ -	\$5,995
Retail	3,311	-	3,311	846	23	869	4,180
Industrial	1,004	105	1,109	36	-	36	1,145
Residential	1,685	571	2,256	1,040	123	1,163	3,419
Total	\$11,988	\$683	\$12,671	\$1,922	\$146	\$2,068	\$14,739

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

December 31, 2019							
Geographic Location (in millions of Canadian dollars)	REIT's Financial Statements			Equity Accounted Investments			REIT's proportionate share ⁽¹⁾
	Investment Properties	Properties Under Development	Sub Total	Investment Properties	Properties Under Development	Sub Total	
Ontario	\$3,956	\$105	\$4,061	\$ -	\$ -	\$ -	\$4,061
Alberta	3,201	-	3,201	-	-	-	3,201
Other	1,260	7	1,267	-	-	-	1,267
Canada	8,417	112	8,529	-	-	-	8,529
United States	3,571	571	4,142	1,922	146	2,068	6,210
Total	\$11,988	\$683	\$12,671	\$1,922	\$146	\$2,068	\$14,739

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

H&R has utilized the following capitalization rates in estimating the fair value of the investment properties excluding assets classified as held for sale. The capitalization rates disclosed below are reported by segment and geographic location at the REIT's proportionate share which differs from the REIT's Financial Statements.

Weighted Average Overall Capitalization Rates:

December 31, 2019	Office	Retail	Industrial	Residential	Total
Canada	5.72%	6.12%	5.51%	-	5.84%
United States	5.22%	7.15%	7.52%	4.75%	5.34%
December 31, 2018	Office	Retail	Industrial	Residential	Total
Canada	5.54%	6.06%	5.68%	-	5.73%
United States	5.27%	7.25%	8.55%	5.09%	5.68%

Canadian Properties Under Development:

Industrial Lands, Caledon, ON

H&R owns approximately 144 acres of land which is being held for development for up to 2.7 million square feet of industrial space. In June 2019, construction commenced on the first three buildings totalling approximately 526,000 square feet.

Subsequent to December 31, 2019, H&R completed a 10-year lease with Deutsche Post AG to occupy the largest of the three buildings totalling 342,821 square feet. Occupancy is expected to commence in Q3 2020. The total budget for this building is approximately \$54.6 million, an increase of \$8.8 million primarily to account for a tenant allowance which has increased the expected yield on cost to 6.7%. As at December 31, 2019, \$24.4 million was included in properties under development with \$30.2 million of budgeted costs remaining to complete.

The total budget for the remaining two buildings consisting of approximately 183,000 square feet is approximately \$28.4 million with an expected yield on cost of 6.0%. As at December 31, 2019, \$10.0 million was included in properties under development with \$18.4 million of budgeted costs remaining to complete. These two buildings are expected to be completed in Q4 2020.

3791 Kingsway, Burnaby, BC

In August 2019, H&R acquired a 50% ownership interest in excess lands, held for future re-development, at 3791 Kingsway in Burnaby, BC for \$6.7 million. This property is located adjacent to the REIT's 3777 Kingsway office tower of which it has a 50% ownership interest.

U.S. Properties Under Development:

As at December 31, 2019			At H&R Ownership Interest (in thousands of U.S. dollars)			Expected Yield on Cost	Expected Completion Date
Ownership Interest	Number of Acres	Total Development Budget	Properties Under Development	Costs Remaining to Complete			
Current Developments:							
River Landing, Miami, FL ⁽¹⁾	100.0%	8.1	\$467,860	\$367,008	\$100,852	5.3%	Q2 2020
Shoreline, Long Beach, CA ⁽²⁾	31.2%	0.9	71,097	24,690	46,407	6.2%	Q2 2021
Sunrise (Phase 1), Orlando, FL ⁽³⁾⁽⁴⁾	100.0%	11.6	61,826	2,376	59,450	6.1%	Q4 2021
Hercules Project (Phase 1), Hercules, CA ⁽⁵⁾	31.7%	2.2	26,041	19,424	6,617	6.5%	Q2 2020
Hercules Project (Phase 2), Hercules, CA ⁽⁵⁾	31.7%	2.8	31,186	11,190	19,996	6.6%	Q1 2021
The Pearl, Austin, TX ⁽⁶⁾	33.3%	5.0	23,201	13,189	10,012	6.2%	Q3 2020
Esterra Park, Seattle, WA ⁽⁷⁾	33.3%	1.1	31,859	15,058	16,801	6.0%	Q1 2021
		31.7	\$713,070	\$452,935	\$260,135		
Future Developments:							
Prosper, Dallas, TX ⁽⁸⁾	100.0%	20.3	-	15,120	-		
2214 Bryan St., Dallas, TX ⁽⁸⁾	100.0%	3.3	-	23,616	-		
Pinellas, Tampa, FL ⁽⁸⁾	100.0%	8.4	-	6,287	-		
Sunrise (Phase 2), Orlando, FL ⁽³⁾⁽⁴⁾⁽⁸⁾	100.0%	12.4	-	350	-		
Hercules Project (Remaining Phases), Hercules, CA ⁽⁵⁾⁽⁸⁾	31.7%	33.4	-	11,393	-		
Total per the REIT's Proportionate Share (excluding ECHO)		109.5	\$713,070	\$509,701	\$260,135		

(1) Mixed use development consisting of 528 residential rental units, approximately 373,000 square of retail space and 118,000 square feet of office space.

(2) 35-storey residential tower consisting of 315 luxury residential rental units and 6,450 square feet of retail.

(3) Acquired a leasehold interest to develop up to 670 residential rental units. Located within the heart of the I-4 Tourism Corridor in Orlando and the site is a seven-minute drive from Walt Disney World. Construction of Phase 1 is expected to commence in Q1 2020 which will consist of 321 residential rental units.

(4) Excludes the right-of-use asset, which is a leasehold interest measured at an amount equal to the corresponding lease liability of U.S. \$24.6 million.

(5) Total project spans 38.4 acres. Construction commenced in June 2018 on Phase 1 of this project which will consist of 172 residential rental units and 13,979 square feet of retail. Construction commenced in March 2019 on Phase 2 of this project which will consist of 232 residential rental units. Future phases will be announced as further development information becomes available.

(6) 383 residential rental units. Close to major technology employers including Apple, IBM, Oracle and Samsung as well as the University of Texas at Austin and downtown Austin.

(7) 7-storey residential tower consisting of 263 residential rental units. Part of a larger master planned community and is adjacent to transit, Microsoft, Inc.'s headquarters, and future light rail which is expected to be completed in 2023.

(8) Development budget metrics have not been determined as at December 31, 2019.

Equity Accounted Investments:

(in thousands of Canadian dollars)	December 31, 2019									December 31 2018
	Jackson Park	ECHO	Three U.S. Industrial Properties	Hercules Project	The Pearl	Esterra Park	Shoreline	Other ⁽¹⁾	Total ⁽²⁾	Total ⁽²⁾
Investment properties	\$1,040,336	\$845,377	\$36,107	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,921,820	\$930,299
Properties under development	-	22,809	-	54,609	17,147	19,576	32,097	-	146,238	1,145,018
Assets classified as held for sale	-	12,872	-	-	-	-	-	-	12,872	-
Other assets	6,236	20,409	117	-	10	32	-	41	26,845	31,376
Cash and cash equivalents	22,757	9,668	1,391	693	2	1,682	341	229	36,763	42,597
Debt	(640,560)	(352,697)	-	(16,381)	(5,893)	(4,733)	-	-	(1,020,264)	(780,552)
Lease liability	-	(43,517)	-	-	-	-	-	-	(43,517)	-
Other liabilities	(18,682)	(46,064)	(446)	(5,292)	(1,749)	(2,910)	(1,449)	(1,392)	(77,984)	(83,753)
Equity accounted investments	\$410,087	\$468,857	\$37,169	\$33,629	\$9,517	\$13,647	\$30,989	(\$1,122)	\$1,002,773	\$1,284,985

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

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

Long Island City Project-Jackson Park

Jackson Park, the 1,871 luxury residential rental unit development in Long Island City, NY, in which H&R has a 50% ownership interest, reached substantial completion and was transferred from properties under development to investment properties in Q1 2019. Jackson Park, at the 100% level, has been valued at approximately U.S. \$1.6 billion as at December 31, 2019 compared to costs to date of approximately U.S. \$1.1 billion, resulting in a fair value increase of U.S. \$508.6 million since the start of the project.

In September 2019, H&R, together with its partners, secured a U.S. \$1.0 billion interest-only first mortgage for Jackson Park (U.S. \$500.0 million, at H&R's ownership interest) at a fixed rate of 3.25% for a 10-year term. Upon closing, Jackson Park's existing U.S. \$640.0 million construction facility was discharged and the outstanding balance prior to this refinancing was repaid. After closing costs, H&R received a cash distribution of U.S. \$194.8 million which was used to repay other debt.

Refer to pages 7 and 8 of this MD&A for more information on Jackson Park.

ECHO

H&R owns a 33.6% interest in ECHO, a privately held real estate and development company which focuses on developing and owning a core portfolio of grocery anchored shopping centres, primarily in Pennsylvania and Ohio. ECHO reports its financial results to H&R one month in arrears. ECHO's financial information has been disclosed as at November 30, 2019 and November 30, 2018, respectively.

During the twelve months ended November 30, 2019, ECHO acquired two investment properties totalling 15,343 square feet and four properties under development for an aggregate purchase price of U.S. \$11.5 million, at H&R's ownership interest. During this period, ECHO sold a parcel of vacant land, seven investment properties and two outparcels which were previously part of existing properties totalling 805,611 square feet for gross proceeds of U.S. \$37.7 million, at H&R's ownership interest. ECHO also transferred one property under development to investment properties totalling 1,774 square feet for a total value of U.S. \$1.2 million, at H&R's ownership interest.

During the twelve months ended November 30, 2018, ECHO acquired three investment properties totalling 28,616 square feet and eight properties under development for an aggregate purchase price of U.S. \$10.5 million, at H&R's ownership interest. During this period, ECHO sold two investment properties totalling 23,722 square feet for gross proceeds of U.S. \$1.0 million and transferred two properties under development to investment properties totalling 35,199 square feet for a total value of U.S. \$10.1 million, at H&R's ownership interest.

As a result of the adoption of IFRS 16 *Leases* ("IFRS 16") on January 1, 2019, ECHO recognized a right-of-use asset and a lease liability of approximately U.S. \$100.0 million, at the 100% level. As at December 31, 2019, the fair value of investment properties owned by ECHO is equal to approximately U.S. \$1.8 billion, which is equivalent to investment properties of approximately U.S. \$1.9 billion less the lease liability of approximately U.S. \$99.6 million, at the 100% level.

Three U.S. Industrial Properties

As at December 31, 2019, H&R owns a 50.5% interest in three industrial properties through a joint venture with its partners, all of which are located in the United States (December 31, 2018 - 6 properties). During the year ended December 31, 2019, H&R sold its 50.5% interest in the following properties:

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

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

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

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

Hercules Project

H&R has a 31.7% non-managing ownership interest in 38.4 acres of land located in Hercules, CA, adjacent to San Pablo Bay, northeast of San Francisco, for the future development of residential rental units ("Hercules Project"). This waterfront, multi-phase, master-planned, in-fill mixed-use development surrounds a future intermodal transit centre, including train and ferry service, and is adjacent to an 11-acre waterfront future regional park. The initial investment to purchase the land was approximately U.S. \$10.0 million (at H&R's ownership interest). As at December 31, 2019, H&R's equity investment was approximately U.S. \$26.2 million.

Phase 1 of the Hercules Project, known as "The Exchange at Bayfront" will consist of 172 residential rental units, including lofts and townhomes and 13,979 square feet of ground level retail. The four-storey podium project sits on 2.2 acres over a one-level subterranean parking garage. Construction commenced in June 2018. The total budget for Phase 1 is approximately U.S. \$82.1 million and construction financing of U.S. \$57.5 million was secured in July 2018, both at the 100% level. As at December 31, 2019, U.S. \$27.6 million has been drawn on this construction facility at the 100% level.

Phase 2 of the Hercules Project, known as "The Grand at Bayfront" will consist of 232 residential rental units including a state-of-the-art fitness centre, bike shop, residents lounge and sporting club. It is situated on 2.8 acres of land and is located north/northeast of Phase 1. Construction commenced in March 2019. The total budget for Phase 2 is approximately U.S. \$98.4 million and construction financing of approximately U.S. \$65.4 million was secured in March 2019, both at the 100% level.

The remaining land parcels are secured against a U.S. \$12.2 million land loan. Future phases will be announced as further development information becomes available.

The Pearl

H&R has a 33.3% non-managing ownership interest in approximately 5.0 acres of land in Austin, TX for the development of 383 residential rental units which will be known as "The Pearl". This residential development site is close to major technology employers including Apple, IBM, Oracle and Samsung, as well as the University of Texas at Austin and downtown Austin. Construction commenced in October 2018. The total budget for this project is approximately U.S. \$69.7 million and construction financing of U.S. \$47.9 million was secured in October 2018, both at the 100% level. As at December 31, 2019, H&R's equity investment was approximately U.S. \$7.3 million and U.S. \$13.6 million had been drawn on the construction facility, at the 100% level.

Esterra Park

H&R has a 33.3% non-managing ownership interest in a residential development site in Seattle, WA for the development of 263 residential rental units which will be known as "Esterra Park". This residential development site is part of a larger master planned community and is adjacent to Microsoft, Inc.'s headquarters, bus transit and future light rail which is expected to be completed in 2023. Construction commenced in November 2018. The total budget for this project is approximately U.S. \$95.7 million and construction financing of U.S. \$66.5 million was secured in October 2018, both at the 100% level. As at December 31, 2019, H&R's equity investment was approximately U.S. \$10.5 million and U.S. \$10.9 million had been drawn on the construction facility, at the 100% level.

Shoreline

H&R has a 30.9% non-managing ownership interest in a residential development site which will consist of a 315 luxury residential rental unit tower with 6,450 square feet of retail space. Located in Long Beach, CA, "Shoreline Gateway" will become the tallest residential tower in Long Beach with 35 floors enjoying views overlooking the Pacific Ocean. Construction commenced in November 2018. The total budget for this project is approximately U.S. \$227.1 million and construction financing of U.S. \$132.0 million was secured in December 2018, both at the 100% level. As at December 31, 2019, H&R's equity investment was approximately U.S. \$22.1 million.

Assets and Liabilities Classified as Held for Sale

As at December 31 2019, H&R had two U.S. residential properties and a 50% ownership interest in one industrial property with total assets of \$135.7 million and liabilities of \$49.4 million classified as held for sale. As at December 31, 2018, H&R had one U.S. office property and a 50% ownership interest in one industrial property totalling \$110.9 million classified as held for sale.

Other Assets

(in thousands of Canadian dollars)	December 31, 2019	December 31, 2018
Mortgages receivable	\$555,030	\$96,909
Prepaid expenses and sundry assets	49,691	25,861
Restricted cash	7,931	12,872
Accounts receivable	11,360	12,401
Derivative instruments	752	5,445
	\$624,764	\$153,488

Mortgages receivable increased by \$458.1 million to \$555.0 million as at December 31, 2019, primarily due to the following: (i) H&R sold The Atrium in Toronto, ON in June 2019 and provided the vendor with a mortgage of \$256.0 million, earning 4.56% per annum; (ii) H&R provided a loan of \$161.4 million in December 2019 secured against 12.5 acres of land in Jersey City, NJ, earning interest at 10.0% per annum; and (iii) H&R provided two other loans secured by land totalling \$40.3 million. Subsequent to December 31, 2019, the \$256.0 million mortgage receivable secured by The Atrium was received.

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

LIABILITIES AND UNITHOLDERS' EQUITY

	December 31, 2019	December 31, 2018
Debt to total assets per the REIT's Financial Statements ⁽¹⁾	44.4%	44.6%
Debt to total assets at the REIT's proportionate share ⁽¹⁾⁽²⁾	47.7%	47.1%
Unencumbered assets ⁽³⁾ (in thousands of Canadian dollars)	\$3,959,871	\$3,438,151
Unsecured debt ⁽³⁾ (in thousands of Canadian dollars)	\$2,399,902	\$2,069,419
Unencumbered asset to unsecured debt coverage ratio ⁽³⁾	1.65	1.66
Interest coverage ratio ⁽²⁾	3.05	3.03
Weighted average interest rate of debt ⁽¹⁾	3.8%	3.8%
Weighted average term to maturity of debt (in years) ⁽¹⁾	3.9	4.4
Weighted average interest rate of debt at the REIT's proportionate share ⁽¹⁾⁽²⁾	3.8%	3.9%
Weighted average term to maturity of debt (in years) at the REIT's proportionate share ⁽¹⁾⁽²⁾	4.6	4.3

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

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

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

Debt

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

(in thousands of Canadian dollars)	December 31, 2019	December 31, 2018
Mortgages payable	\$3,630,858	\$4,150,459
Debentures payable	1,257,731	1,613,040
Unsecured term loans	692,229	450,629
Lines of credit	795,042	331,944
	\$6,375,860	\$6,546,072

(in thousands of Canadian dollars)	Mortgages Payable	Debentures Payable	Unsecured Term Loans	Lines of Credit	Total
Opening balance, January 1, 2019	\$4,150,459	\$1,613,040	\$450,629	\$331,944	\$6,546,072
Scheduled amortization payments	(123,651)	-	-	-	(123,651)
Debt repayment and redemptions	(494,038)	(350,000)	-	-	(844,038)
New debt	224,631	-	250,000	-	474,631
Debt reclassified to liabilities held for sale	(49,416)	-	-	-	(49,416)
Net advances (repayments)	-	-	-	463,878	463,878
Effective interest rate accretion	2,552	2,191	-	-	4,743
Change in foreign exchange	(79,679)	(7,500)	(8,400)	(780)	(96,359)
Closing balance, December 31, 2019	\$3,630,858	\$1,257,731	\$692,229	\$795,042	\$6,375,860

<u>Mortgages Payable</u>	Periodic Amortized Principal (\$000's)	Principal on Maturity (\$000's)	Total Principal (\$000's)	% of Total Principal	Weighted Average Interest Rate on Maturity
Future Mortgage Principal Payments					
2020	\$118,841	\$64,827	\$183,668	5.0	4.5%
2021	105,129	826,799	931,928	25.6	3.9%
2022	66,700	539,940	606,640	16.6	3.9%
2023	59,146	386,897	446,043	12.2	3.9%
2024	51,204	5,901	57,105	1.6	3.9%
Thereafter			1,419,041	39.0	
			3,644,425	100%	
Financing costs and mark-to-market adjustments arising on acquisitions ⁽¹⁾			(13,567)		
Total balance outstanding as at December 31, 2019			\$3,630,858		

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

The mortgages outstanding as at December 31, 2019 bear interest at a weighted average rate of 4.1% (December 31, 2018 - 4.2%) and mature between 2020 and 2032 (December 31, 2018 - maturing between 2019 and 2032). The weighted average term to maturity of the REIT's mortgages is 4.8 years (December 31, 2018 - 5.2 years). For a further discussion of liquidity refer to "Funding of Future Commitments". For a further discussion of interest rate risk, refer to "Risks and Uncertainties".

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				December 31	December 31
				2019	2018
Debentures Payable					
(in thousands of Canadian Dollars)	Maturity	Contractual interest rate	Effective interest rate	Principal amount	Carrying value
Senior Debentures					
Series K Senior Debentures ⁽¹⁾	March 1, 2019	2.36%	(1)	\$ -	\$ -
Series M Senior Debentures ⁽²⁾	July 23, 2019	3.35%	(2)	-	-
Series P Senior Debentures ⁽³⁾	February 13, 2020	3.67%	(3)	162,500	162,469
Series F Senior Debentures	March 2, 2020	4.45%	4.58%	175,000	174,954
Series L Senior Debentures	May 6, 2022	2.92%	3.11%	325,000	322,862
Series O Senior Debentures	January 23, 2023	3.42%	3.44%	250,000	249,065
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	348,381
				3.45%	3.55%
				\$1,262,500	\$1,257,731
					\$1,613,040

- (1) Bore interest at a rate equal to 3-month Canadian Dealer Offered Rate plus 143 basis points. The REIT entered into an interest rate swap on the Series K senior debentures to fix the interest rate at 2.36% per annum. In March 2019, the REIT repaid all of its Series K senior debentures upon maturity for a cash payment of \$200.0 million.
- (2) Bore interest at a rate equal to 3-month Canadian Dealer Offered Rate plus 123 basis points. The average interest rate for the year ended December 31, 2019 was 3.35%. In July 2019, the REIT repaid all of its Series M senior debentures upon maturity for a cash payment of \$150.0 million.
- (3) Denominated as \$125,000 U.S. dollars and bears interest at a rate equal to 3-month London Interbank Offered Rate plus 79 basis points. The REIT entered into an interest rate swap on the Series P senior debentures to fix the interest rate at 3.67% per annum.

Unsecured Term Loans	Maturity Date	December 31, 2019	December 31, 2018
(in thousands of Canadian Dollars)			
H&R unsecured term loan #1 ⁽¹⁾	March 17, 2021	\$192,229	\$200,629
H&R unsecured term loan #2 ⁽²⁾	March 7, 2024	250,000	-
H&R unsecured term loan #3 ⁽³⁾	January 6, 2026	250,000	250,000
		\$692,229	\$450,629

- (1) The total facility as at December 31, 2019 is \$200.0 million, plus a 3.00% allowance relating to the fluctuation of the foreign exchange rate, and can be drawn in either Canadian or U.S. dollars. The REIT entered into an interest rate swap to fix the interest rate at 2.56% per annum on U.S. \$130.0 million of the U.S. dollar denominated borrowing of this facility. The swap matures March 17, 2021.
- (2) The REIT entered into an interest rate swap to fix the interest rate at 3.33% per annum. The swap matures on March 7, 2026.
- (3) The REIT entered into an interest rate swap to fix the interest rate at 3.91% per annum. The swap matures on January 6, 2026.

<u>Lines of Credit</u> (in thousands of Canadian Dollars)	Maturity Date	Total Facility	Amount Drawn	Outstanding Letters of Credit	Available Balance
Revolving unsecured operating lines of credit:					
H&R revolving unsecured line of credit #1	September 20, 2022	\$150,000	(\$146,100)	\$ -	\$3,900
H&R revolving unsecured line of credit #2	January 31, 2023	200,000	(194,350)	-	5,650
H&R revolving unsecured line of credit #3	September 20, 2023	350,000	(109,492)	(1,985)	238,523
H&R revolving unsecured letter of credit facility		60,000	-	(34,791)	25,209
Sub-total		760,000	(449,942)	(36,776)	273,282
Revolving secured operating lines of credit⁽¹⁾					
H&R and CrestPSP revolving secured line of credit	April 30, 2020	62,500	(51,500)	(105)	10,895
Primaris revolving secured line of credit	December 31, 2021	300,000	(293,600)	-	6,400
Sub-total		362,500	(345,100)	(105)	17,295
December 31, 2019		\$1,122,500	(\$795,042)	(\$36,881)	\$290,577
December 31, 2018		\$1,126,014	(\$331,944)	(\$25,874)	\$768,196

⁽¹⁾ Secured by certain investment properties.

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

Exchangeable Units

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

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

During the year ended December 31, 2019, there were 639,302 exchangeable units exchanged for Units (year ended December 31, 2018 - 23,889 exchanged for Units).

The following number of exchangeable units are issued and outstanding:	Number of Exchangeable Units	Quoted Price of Units	Amounts per the REIT's Financial Statements (\$000's)
As at December 31, 2019	15,316,239	\$21.10	\$323,173
As at December 31, 2018	15,955,541	\$20.65	\$329,482

A subsidiary of H&R also holds 0.4 million Units to mirror certain of these exchangeable units. Therefore, when the approximately 0.4 million exchangeable units are exchanged for Units, the number of outstanding Units will not increase. These 0.4 million exchangeable units have been excluded from the weighting of exchangeable units used to calculate FFO and AFFO per Unit and NAV per Unit amounts as they are already included in the total Units outstanding.

Deferred Tax Liability

H&R has certain subsidiaries in the United States that are subject to tax on their taxable income at a combined federal and state tax rate of approximately 23.6% in 2019 (2018 - 24.3%).

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

(in millions of Canadian dollars)	December 31, 2019	December 31, 2018
Deferred tax assets:		
Net operating losses	\$24.9	\$22.6
Accounts payable and accrued liabilities	0.9	0.6
Other assets	1.0	1.4
	26.8	24.6
Deferred liabilities:		
Investment properties	309.7	284.0
Equity accounted investments	126.5	132.8
	436.2	416.8
Deferred tax liability	(\$409.4)	(\$392.2)

The deferred tax liability relating to the investment properties is derived on the basis that the U.S. investment properties will be sold at their current fair value. The tax liability will only be realized upon an actual disposition of a property that is not subject to a Section 1031 property exchange. Deferred tax liability increased by \$17.2 million from \$392.2 million as at December 31, 2018 to \$409.4 million as at December 31, 2019 primarily due to unrealized fair value gains on U.S. office properties recognized during the year ended December 31, 2019. This was offset by the strengthening of the Canadian dollar.

Unitholders' Equity

Unitholders' equity decreased by \$156.2 million from \$7.2 billion as at December 31, 2018 to \$7.0 billion as at December 31, 2019. The decrease is primarily due to the unrealized loss on translation of U.S. denominated foreign operations.

Normal Course Issuer Bid ("NCIB")

On December 10, 2019, 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 15.0 million Units on the open market until the earlier of December 16, 2020 or the date on which the REIT purchased the maximum number of Units permitted under the NCIB. During the year ended December 31, 2019, the REIT did not purchase and cancel any Units. During the year ended December 31, 2018, under a previous NCIB, the Trusts purchased and cancelled 6,609,420 Units at a weighted average price of \$20.62 per Unit, for a total cost of \$136.3 million.

Unitholders' Equity per Unit and NAV per Unit	December 31, 2019	December 31, 2018
Unitholders' equity	\$7,043,917	\$7,200,100
Exchangeable units	323,173	329,482
Deferred tax liability	409,381	392,214
Total	\$7,776,471	\$7,921,796
Units outstanding (in thousands of Units)	286,690	285,678
Exchangeable units outstanding (in thousands of Units)	14,883	15,522
Total (in thousands of Units)	301,573	301,200
Unitholders' equity per Unit ⁽¹⁾	\$24.57	\$25.20
NAV per Unit ⁽²⁾	\$25.79	\$26.30
Unit Price	\$21.10	\$20.65

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

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

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	
	2019	2018	2019	2018
For each U.S. \$1.00	\$1.33 CAD	\$1.33 CAD	\$1.33 CAD	\$1.30 CAD

(in thousands of Canadian dollars)	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Property operating income:				
Rentals from investment properties	\$282,221	\$297,416	\$1,149,450	\$1,176,558
Property operating costs	(97,446)	(105,407)	(438,475)	(442,626)
	184,775	192,009	710,975	733,932
Net income from equity accounted investments	36,958	148,165	31,201	169,409
Finance costs - operations	(61,107)	(65,834)	(256,496)	(267,087)
Finance income	6,012	2,254	15,036	8,638
Trust expenses	8,372	(8,648)	(27,293)	(18,271)
Fair value adjustments on financial instruments	42,607	(17,332)	(19,483)	11,197
Fair value adjustment on real estate assets	(43,689)	(151,884)	(103,903)	(246,967)
Gain (loss) on sale of real estate assets	(11)	(267)	25,632	(19,602)
Gain on foreign exchange	-	-	-	6,886
Net income before income taxes	173,917	98,463	375,669	378,135
Income tax expense	(10,515)	(37,348)	(35,380)	(40,217)
Net income	163,402	61,115	340,289	337,918
Other comprehensive income (loss):				
Items that are or may be reclassified subsequently to net income	(43,918)	139,335	(125,326)	194,876
Total comprehensive income attributable to unitholders	\$119,484	\$200,450	\$214,963	\$532,794

During 2019, H&R continued to actively reallocate capital through property dispositions to fund value-creating developments, expand its residential rental platform and strengthen its balance sheet. The REIT has completed approximately \$1.8 billion of asset sales over the past two years, substantially repositioning its portfolio, enhancing its internal growth profile and reducing leverage. This is the main reason for the decrease in property operating income.

Net income from equity accounted investments for the three months ended and year ended December 31, 2019 compared to the respective 2018 periods decreased by \$111.2 million and \$138.2 million, respectively, primarily due to greater fair value increases to Jackson Park in Q4 2018 compared to 2019.

Net income before income taxes increased by \$75.5 million for the three months ended December 31, 2019 compared to the respective 2018 period primarily due to fair value adjustments on financial instruments and real estate assets as well as fair value adjustments to unit-based compensation included in trust expenses, partially offset by the decrease in property operating income and net income from equity accounted investments noted above.

Net income before income taxes decreased by \$2.5 million for the year-ended December 31, 2019 compared to the respective 2018 period primarily due to the decrease in property operating income and net income from equity accounted investments noted above, as well as fair value adjustments on financial instruments, partially offset by fair value adjustments on real estate assets and gain (loss) on sale of real estate assets.

PROPERTY OPERATING INCOME

Property operating income consists of rentals from investment properties less property operating costs. Management believes that property operating income is a useful measure for investors in assessing the performance of H&R's properties before financing costs and other sources of income and expenditures which are not directly related to the day-to-day operations of a property. Same-Asset property operating income (cash basis) adjusts property operating income (including property operating income from equity accounted investments on a proportionately consolidated basis) to exclude straight-lining of contractual rent and realty taxes accounted for under IFRIC 21. "Same-Asset" refers to those properties owned by H&R for the entire two-year period ended December 31, 2019. It excludes acquisitions, business combinations, dispositions and transfers of properties under development to investment properties during the two-year period ended December 31, 2019 (collectively, "Transactions"). Management believes that this measure is useful for investors as it adjusts property operating income (including property operating income from equity accounted investments on a proportionately consolidated basis) for non-cash items which allows investors to better understand period-over-period changes due to occupancy, rental rates, realty taxes and operating costs, before evaluating the changes attributable to Transactions. Furthermore, it is also used as a key input in determining the value of investment properties.

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Rentals	\$282,221	\$297,416	(\$15,195)	\$1,149,450	\$1,176,558	(\$27,108)
Property operating costs	(97,446)	(105,407)	7,961	(438,475)	(442,626)	4,151
Property operating income	184,775	192,009	(7,234)	710,975	733,932	(22,957)
Adjusted for:						
Proportionate share of property operating income from equity accounted investments ⁽¹⁾	25,099	20,165	4,934	93,856	60,939	32,917
Straight-lining of contractual rent at the REIT's proportionate share ⁽¹⁾	(1,950)	1,175	(3,125)	(8,848)	3,683	(12,531)
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share ⁽¹⁾	(12,436)	(11,166)	(1,270)	-	-	-
Property operating income (cash basis) from Transactions at the REIT's proportionate share ⁽¹⁾	(17,538)	(19,072)	1,534	(80,204)	(82,878)	2,674
Same-Asset property operating income (cash basis) ⁽²⁾	\$177,950	\$183,111	(\$5,161)	\$715,779	\$715,676	\$103

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

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

Property operating income per the REIT's Financial Statements decreased by \$7.2 million and \$23.0 million, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods primarily due to properties sold, partially offset by residential property acquisitions during the past 2 years. For a list of property acquisitions and dispositions, refer to pages 10 and 11 of this MD&A. This net decrease for the year ended December 31, 2019 compared to the respective 2018 period, was further offset by lease termination fees received of \$7.6 million and \$2.4 million, respectively.

Property operating income from equity accounted investments for the three months and year ended December 31, 2019 compared to the respective 2018 period increased by \$4.9 million and \$32.9 million, respectively, primarily due to the lease-up of Jackson Park.

SEGMENTED INFORMATION

Operating Segments and Geographic Locations:

H&R has four reportable operating segments (Office, which also includes the REIT's head office, Retail (operating as Primaris), Industrial and Residential (operating as Lantower Residential)), in two geographical locations (Canada and the United States). Effective January 1, 2019, the REIT has combined its previous three retail segments (Primaris, H&R Retail and ECHO) into one segment known as Retail. The comparative period figures have been re-stated to reflect this change in operating segments. The operating segments derive their revenue primarily from rental income from leases. The segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, determined to be the Chief Executive Officer ("CEO") of the REIT. The CEO measures and evaluates the performance of the REIT based on property operating income on a proportionately consolidated basis for the REIT's equity accounted investments.

H&R's Office portfolio is comprised of 27 properties throughout Canada and six properties in select markets in the United States, aggregating 10.8 million square feet, at H&R's ownership interest, with an average lease term to maturity of 12.4 years as at December 31, 2019. The Office portfolio is leased on a long-term basis to creditworthy tenants, with 87.1% of office revenue from tenants with investment grade ratings. With a very long average lease term and high credit tenants, this segment tends to generate very stable, gradual growth in property operating income driven by contractual rental rate increases, and to a lesser extent, lease renewals.

The Retail segment consists of a portfolio of 69 properties throughout Canada which includes enclosed shopping centres, single-tenant retail properties and multi-tenant retail plazas as well as 16 single-tenant retail properties in the United States. In addition, it also holds a 33.6% interest in ECHO, a privately held real estate and development company which focuses on developing and owning a core portfolio of grocery anchored shopping centres in the United States. In total, this segment includes 69 properties in Canada and 242 properties in the United States comprising 13.5 million square feet, at H&R's ownership interest, with an average lease term to maturity of 6.6 years as at December 31, 2019.

The Industrial segment consists of 83 industrial properties throughout Canada and four properties in the United States comprising 9.2 million square feet, at H&R's ownership interest, with an average lease term to maturity of 6.7 years as at December 31, 2019.

The Residential segment consists of 24 residential properties in select markets in the United States comprising 8,443 residential rental units, at H&R's ownership interest, as at December 31, 2019. The investment policy of Lantower Residential is to acquire or develop class A properties in U.S. Sun Belt cities where there is strong population and employment growth and to develop properties with partners in gateway cities.

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

(in thousands of Canadian dollars)	Property operating income						Occupancy	
	Three months ended December 31			Year ended December 31			As at December 31	
	2019	2018	% Change	2019	2018	% Change	2019	2018
Operating Segment:								
Office ⁽¹⁾	\$91,882	\$101,721	(9.7%)	\$377,723	\$389,856	(3.1%)	98.6%	98.5%
Retail	65,607	68,741	(4.6%)	251,153	278,142	(9.7%)	91.5%	90.0%
Industrial	14,825	16,111	(8.0%)	61,385	62,884	(2.4%)	97.2%	98.5%
Residential	37,560	25,601	46.7%	114,570	63,989	79.0%	90.7%	88.0%
The REIT's proportionate share	209,874	212,174	(1.1%)	804,831	794,871	1.3%	94.5%	94.0%
Less: equity accounted investments	(25,099)	(20,165)	24.5%	(93,856)	(60,939)	54.0%	97.2%	96.6%
The REIT's Financial Statements	\$184,775	\$192,009	(3.8%)	\$710,975	\$733,932	(3.1%)	94.2%	93.7%
Geographic Location:								
Canada ⁽²⁾	\$126,323	\$138,238	(8.6%)	\$523,733	\$538,141	(2.7%)	94.8%	94.6%
United States ⁽²⁾	83,551	73,936	13.0%	281,098	256,730	9.5%	94.0%	92.8%
The REIT's proportionate share	209,874	212,174	(1.1%)	804,831	794,871	1.3%	94.5%	94.0%
Less: equity accounted investments	(25,099)	(20,165)	24.5%	(93,856)	(60,939)	54.0%	97.2%	96.6%
The REIT's Financial Statements	\$184,775	\$192,009	(3.8%)	\$710,975	\$733,932	(3.1%)	94.2%	93.7%

⁽¹⁾ Includes the REIT's head office.

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

The average exchange rate for both the three months and year ended December 31, 2019 was \$1.33 for each U.S. \$1.00 (Q4 2018 - \$1.33, December 31, 2018 - \$1.30). Property operating income across all operating segments was positively impacted by the weakening of the Canadian dollar compared to the U.S. dollar for the year ended December 31, 2019 compared to the respective 2018 period. The following explanations for changes in property operating income are in addition to the foreign exchange impact.

Property operating income from office properties decreased by 9.7% and 3.1%, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods primarily due to the sale of The Atrium in Toronto, ON in June 2019. The decrease for the year ended December 31, 2019 compared to the respective 2018 period was partially offset by lease termination fees of \$5.9 million received in 2019 compared to \$0.7 million in 2018.

Property operating income from retail properties decreased by 4.6% and 9.7%, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods, primarily due to the following: (i) properties sold throughout 2018 and 2019; (ii) Canadian tenant bankruptcies; and (iii) a decrease in lease termination fees. The decrease for the year ended December 31, 2019 compared to the year ended December 31, 2018 was partially offset by contractual rental escalations at ECHO as well as ECHO including a positive adjustment of \$0.4 million as a result of the initial adoption of IFRS 16 on January 1, 2019.

Property operating income from industrial properties decreased by 8.0% and 2.4%, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods, primarily due to properties sold throughout 2018 and 2019 and lower occupancy. H&R has re-leased 2121 Cornwall Rd., Oakville, ON to Amazon commencing January 1, 2020. The previous tenant vacated the premises in April 2019. Committed occupancy for the Industrial segment was 98.9% compared to actual occupancy of 97.2% as at December 31, 2019.

Property operating income from residential properties increased by 46.7% and 79.0%, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods primarily due to properties acquired throughout 2018 and 2019 and the lease-up of Jackson Park.

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

(in thousands of Canadian dollars)	Same-Asset property operating income (cash basis) ⁽¹⁾						Occupancy (same asset)	
	Three months ended December 31			Year ended December 31			As at December 31	
	2019	2018	% Change	2019	2018	% Change	2019	2018
Operating Segment:								
Office ⁽²⁾	\$85,255	\$90,048	(5.3%)	\$352,928	\$355,254	(0.7%)	98.6%	98.6%
Retail	63,538	65,289	(2.7%)	248,149	249,153	(0.4%)	91.5%	90.0%
Industrial	14,308	15,038	(4.9%)	57,629	58,676	(1.8%)	97.2%	98.4%
Residential	14,849	12,736	16.6%	57,073	52,593	8.5%	92.4%	91.9%
The REIT's proportionate share (page 22)	\$177,950	\$183,111	(2.8%)	\$715,779	\$715,676	-%	95.0%	94.7%
Geographic Location:								
Ontario ⁽³⁾	\$52,067	\$57,076	(8.8%)	\$219,604	\$223,383	(1.7%)	94.9%	95.4%
Alberta	50,979	51,764	(1.5%)	200,914	203,139	(1.1%)	94.1%	93.8%
Other Canada	20,545	21,436	(4.2%)	77,803	81,290	(4.3%)	95.2%	93.1%
Total - Canada	123,591	130,276	(5.1%)	498,321	507,812	(1.9%)	94.7%	94.4%
United States ⁽³⁾	54,359	52,835	2.9%	217,458	207,864	4.6%	95.5%	95.3%
The REIT's proportionate share (page 22)	\$177,950	\$183,111	(2.8%)	\$715,779	\$715,676	-%	95.0%	94.7%
United States in U.S. dollars:								
Office ⁽²⁾	\$16,892	\$16,858	0.2%	\$67,955	\$67,459	0.7%	100.0%	100.0%
Retail	12,398	12,718	(2.5%)	50,860	49,948	1.8%	97.0%	96.9%
Industrial	414	583	(29.0%)	1,770	2,032	(12.9%)	100.0%	100.0%
Residential	11,165	9,559	16.8%	42,912	40,456	6.1%	92.4%	91.9%
U.S. total in U.S. dollars	\$40,869	\$39,718	2.9%	\$163,497	\$159,895	2.3%	95.5%	95.3%

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

⁽²⁾ Includes the REIT's head office.

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

The average exchange rate for both the three months and year ended December 31, 2019 was \$1.33 for each U.S. \$1.00 (Q4 2018 - \$1.33, December 31, 2018 - \$1.30). Same-Asset property operating income (cash basis) across all operating segments was positively impacted by the weakening of the Canadian dollar compared to the U.S. dollar for the year ended December 31, 2019 compared to the respective 2018 period. Excluding the impact of foreign exchange, Same-Asset property operating income (cash basis) decreased by 0.7% for the year ended December 31, 2019 compared to the respective 2018 period. The following explanations for changes in Same-Asset property operating income (cash basis) are in addition to the positive foreign exchange impact.

Same-Asset property operating income (cash basis) from office properties decreased by 5.3% and 0.7% for the three months and year ended December 31, 2019 compared to the respective 2018 periods primarily due to a decrease in rent from Bell Canada as part of an additional 10-year lease renewal at six office properties in Toronto, Montreal and Ottawa totalling 2,415,515 square feet effective January 1, 2019. In addition, several tenants vacated 25 Sheppard Ave. W., in Toronto, ON in Q3 2019 totalling 87,297 square feet, of which most of this space and other vacant space totaling approximately 101,000 square feet, has been re-leased to the Financial Services Regulatory Authority, a Government of Ontario regulatory agency, commencing November 1, 2020 for 10 years. Committed occupancy for the Office segment was 99.6% compared to actual occupancy of 98.6% as at December 31, 2019. For the year ended December 31, 2019 compared to the respective 2018 period, this decrease was partially offset by lease termination fees received in 2019 of \$5.8 million compared to \$0.7 million in 2018 as well as occupancy increasing from 91.0% as at December 31 2018 to 96.9% as at December 31, 2019 at 160 Elgin St., in Ottawa, ON.

Same-Asset property operating income (cash basis) from industrial properties decreased by 4.9% and 1.8%, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods primarily due to lower occupancy. H&R has re-leased 2121 Cornwall Rd., Oakville, ON to Amazon commencing January 1, 2020. The previous tenant vacated the premises in April 2019.

Same-Asset property operating income (cash basis) from residential properties in U.S. dollars increased by 16.8% and 6.1%, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods primarily due to an increase in revenue from rental rate growth and the stabilization of various assets in the portfolio. Same-Asset property operating income (cash basis) further increased for the three months ended December 31, 2019 compared to the respective 2018 period due the receipt of final 2019 tax bills which were lower than the amounts accrued for at September 30, 2019.

Same-Asset property operating income (cash basis) from retail properties decreased by 2.7% and 0.4%, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods primarily due to tenant bankruptcies and lower lease termination fees. The decrease for the year ended December 31, 2019 compared to the year ended December 31, 2018 was partially offset by contractual rental escalations at ECHO as well as ECHO including a positive adjustment of \$0.4 million as a result of the initial adoption of IFRS 16 on January 1, 2019.

Redevelopment of the former Sears stores is in progress. As each store is part of an existing property, they continue to be classified as investment properties. During the three months and year ended December 31, 2019, H&R capitalized \$0.1 million and \$1.2 million, respectively, of property operating costs attributable to the former Target and Sears space. During the three months and year ended December 31, 2018, H&R capitalized \$0.5 million and \$1.1 million, respectively, of property operating costs attributable to this space. For the three months and year ended December 31, 2019, the lease-up of the former Target and Sears space generated net rent of \$2.5 million and \$8.2 million, respectively, and these tenants are expected to contribute approximately \$12.5 million in 2020 and \$16.3 million in 2021.

Commercial retail unit ("CRU") sales reports enable management to monitor tenant CRU sales for potential weakness, tailor marketing programs to boost sales of tenants approaching their breakpoint or nearing lease expiry and adjust a shopping centre's merchandise mix to address changing customer demands.

The following sales figures generally include CRU tenants occupying less than 15,000 square feet. As at December 31, 2019 and 2018, CRU tenants comprised 2,302,931 square feet and 2,380,030 square feet respectively, and 27.6% and 28.2%, respectively, of Primaris's total enclosed shopping centre space at the 100% level.

Primaris Enclosed Shopping Centres	Location	All Store CRU Sales (in thousands of Canadian dollars) Rolling 12 month ended December 31			Same Store CRU Sales (per square foot) Rolling 12 month ended December 31		
		2019	2018	% Change	2019	2018	% Change
Cataraqui Town Centre ⁽¹⁾⁽²⁾	Kingston, ON	\$82,583	\$88,315	(6.5%)	\$529	\$562	(5.9%)
Dufferin Mall	Toronto, ON	111,330	116,551	(4.5)	642	673	(4.6)
Grant Park ⁽¹⁾	Winnipeg, MB	26,225	26,367	(0.5)	478	484	(1.2)
Kildonan Place ⁽¹⁾⁽²⁾	Winnipeg, MB	78,085	80,923	(3.5)	531	561	(5.3)
McAllister Place ⁽¹⁾⁽²⁾	Saint John, NB	52,275	55,427	(5.7)	430	447	(3.8)
Medicine Hat Mall ⁽²⁾	Medicine Hat, AB	47,966	49,036	(2.2)	432	459	(5.9)
Orchard Park Shopping Centre ⁽²⁾	Kelowna, BC	164,242	171,110	(4.0)	665	694	(4.2)
Park Place Shopping Centre ⁽²⁾	Lethbridge, AB	81,917	81,669	0.3	595	595	-
Peter Pond Mall	Fort McMurray, AB	68,744	71,551	(3.9)	684	727	(5.9)
Place d'Orleans ⁽¹⁾	Orleans, ON	84,879	90,472	(6.2)	481	499	(3.6)
Place du Royaume ⁽¹⁾	Chicoutimi, QC	82,048	87,426	(6.2)	437	444	(1.6)
Regent Mall ⁽¹⁾⁽²⁾	Fredericton, NB	80,180	80,841	(0.8)	580	595	(2.5)
Sherwood Park Mall	Sherwood Park, AB	41,625	42,751	(2.6)	488	485	0.6
St. Albert Centre	St. Albert, AB	33,823	34,025	(0.6)	472	476	(0.8)
Stone Road Mall ⁽²⁾	Guelph, ON	103,609	111,664	(7.2)	619	661	(6.4)
Sunridge Mall	Calgary, AB	87,509	93,839	(6.7)	493	511	(3.5)
Total⁽³⁾⁽⁴⁾		\$1,227,040	\$1,281,967	(4.3%)	\$545	\$567	(3.9%)

(1) All store sales and same store sales have been reported as if H&R owned 100% of these enclosed shopping centres.

(2) Location previously had a Sears store.

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

(4) Excludes Northland Village which is slated for redevelopment.

All store and same store CRU sales for the Primaris portfolio of enclosed shopping centres for the rolling 12 months ended December 31, 2019 decreased by 4.3% and 3.9%, respectively, compared to the respective 2018 period. The decrease in all store CRU sales and same store CRU sales is primarily due to the impact tenant bankruptcies and e-commerce which has negatively impacted certain retail segments such as travel agencies, jewelry, fashion and electronics.

Commencing January 1, 2020, H&R will begin disclosing CRU tenant sales on an annual basis only, as CRU tenants comprised only 27.6% of the total enclosed shopping centre space. Furthermore, all store CRU sales figures may fluctuate when tenants temporarily close for the purpose of a renovation, expand to a large non-major tenant or change their use of space whereby no longer required to report sales.

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

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

(in thousands of Canadian dollars)	Three Months Ended December 31		Year ended December 31	
	2019	2018	2019	2018
Rentals from investment properties	\$31,912	\$26,937	\$124,033	\$86,533
Property operating costs	(6,813)	(6,772)	(30,177)	(25,594)
Property operating income	25,099	20,165	93,856	60,939
Net income from equity accounted investments	147	130	649	406
Finance cost - operations	(10,816)	(9,104)	(39,510)	(25,511)
Finance income	129	681	1,250	1,311
Trust expenses	(467)	(904)	(3,417)	(2,894)
Fair value adjustments on financial instruments	656	(2,037)	(6,845)	3,236
Fair value adjustment on real estate assets	22,444	139,726	(10,941)	133,520
Gain (loss) on sale of real estate assets	11	271	(2,612)	(20)
Income tax expense	(6)	-	(56)	(46)
Non-controlling interest	(239)	(763)	(1,173)	(1,532)
Net income from equity accounted investments	36,958	148,165	31,201	169,409
Realty taxes in accordance with IFRIC 21	(1,263)	(1,252)	-	-
Fair value adjustments on financial instruments and real estate assets	(23,100)	(137,689)	17,786	(136,756)
Gain (loss) on sale of real estate assets	(11)	(271)	2,612	20
Deferred income tax expense (recovery)	-	-	(164)	-
Operational revenue and expenses from right-of-use assets	-	-	(415)	-
Incremental leasing costs	23	48	98	231
Notional interest capitalization ⁽²⁾	636	1,051	2,490	7,827
FFO from equity accounted investments	13,243	10,052	53,608	40,731
Straight-lining of contractual rent	261	(181)	(1,687)	(430)
Capital expenditures	(1,441)	(694)	(4,632)	(2,754)
Leasing expenses and tenant inducements	(888)	(1,122)	(1,484)	(2,730)
Incremental leasing costs	(23)	(48)	(98)	(231)
AFFO from equity accounted investments	\$11,152	\$8,007	\$45,707	\$34,586

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

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

Property operating income from equity accounted investments for the three months and year ended December 31, 2019 compared to the respective 2018 periods increased by \$4.9 million and \$32.9 million, respectively, primarily due to the lease-up of Jackson Park.

Net income from equity accounted investments for the three months ended and year ended December 31, 2019 compared to the respective 2018 periods decreased by \$111.2 million and \$138.2 million, respectively, primarily due to greater fair value increases to Jackson Park in Q4 2018 compared to 2019.

FFO from equity accounted investments for the three months and year ended December 31, 2019 compared to the respective 2018 periods increased by \$3.2 million and \$12.9 million, respectively, primarily due to an increase in property operating income partially offset by higher finance costs and lower notional interest capitalization as a result of the substantial completion of Jackson Park.

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.

<i>Finance Costs</i> (in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Finance costs – operations:						
Contractual interest on mortgages payable	(\$39,001)	(\$42,271)	\$3,270	(\$164,867)	(\$165,855)	\$988
Contractual interest on debentures payable	(11,034)	(14,355)	3,321	(47,312)	(61,213)	13,901
Bank interest and charges	(9,877)	(5,639)	(4,238)	(35,793)	(20,709)	(15,084)
Effective interest rate accretion	(1,129)	(1,073)	(56)	(4,301)	(3,666)	(635)
Exchangeable unit distributions	(5,358)	(5,511)	153	(21,872)	(22,050)	178
	(66,399)	(68,849)	2,450	(274,145)	(273,493)	(652)
Capitalized interest	5,292	3,015	2,277	17,649	6,406	11,243
	(61,107)	(65,834)	4,727	(256,496)	(267,087)	10,591
Finance income	6,012	2,254	3,758	15,036	8,638	6,398
Fair value adjustments on financial instruments	42,607	(17,332)	59,939	(19,483)	11,197	(30,680)
	(\$12,488)	(\$80,912)	\$68,424	(\$260,943)	(\$247,252)	(\$13,691)

The decrease in contractual interest on mortgages payable of \$3.3 million and \$1.0 million, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods is primarily due to mortgages repaid upon maturity and sale, partially offset by the issuance of new mortgages.

The decrease in contractual interest on debentures payable of \$3.3 million and \$13.9 million, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods is primarily due to the repayment of an aggregate of \$1.0 billion of senior and convertible debentures since February 2018, partially offset by the issuance of an aggregate of \$409.2 million of senior debentures since January 2018.

The increase in bank interest and charges of \$4.2 million and \$15.1 million, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods is primarily due to unsecured term loans and lines of credit increasing to \$1.5 billion as at December 31, 2019 compared to \$782.6 million as at December 31, 2018.

The increase in capitalized interest of \$2.3 million and \$11.2 million, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods is due to the increase in funding for the River Landing development and the re-development of the former Sears and Target space.

The increase in finance income of \$3.8 million and \$6.4 million, respectively, for the year ended December 31, 2019 compared to the respective 2018 periods is primarily due to interest earned from H&R providing a vendor take-back mortgage to the purchaser upon the sale of The Atrium.

The fair value adjustments on financial instruments of \$42.6 million and (\$19.5 million), respectively, for the three months and year ended December 31, 2019 are due to the following non-cash items: (i) gain (loss) on fair value of exchangeable units of \$31.4 million and (\$8.1 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) gain (loss) on derivative instruments of \$11.2 million and (\$11.4 million), respectively, which are marked-to-market at the end of each reporting period, both of which result in an unrealized gain or loss recorded in net income.

Trust Expenses

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Other expenses	(\$3,654)	(\$4,369)	\$715	(\$17,149)	(\$15,858)	(\$1,291)
Unit-based compensation recovery (expense)	12,026	(4,279)	16,305	(10,144)	(2,413)	(7,731)
Trust expenses	\$8,372	(\$8,648)	\$17,020	(\$27,293)	(\$18,271)	(\$9,022)

Other expenses decreased by \$0.7 million for the three months ended December 31, 2019 compared to the respective 2018 period primarily due to salary and professional fee over-accruals for the nine months ended September 30, 2019 which were trued-up in Q4 2019. Other expenses increased by \$1.3 million for the year ended December 31, 2019 compared to the respective 2018 period primarily due to the expansion of Lantower Residential.

Unit-based compensation is comprised of the following two compensation plans: the Unit Option Plan and the Incentive Unit Plan. Both plans are considered to be cash-settled under IFRS 2, *Share-based Payments* 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 prices of Units on the TSX. The fair value adjustment to unit-based compensation was \$13.5 million and (\$3.2 million), respectively, for the three months ended December 31, 2019 and 2018 as well as (\$4.5 million) and \$1.5 million, respectively, for the year ended December 31, 2019 and 2018.

Fair Value Adjustment on Real Estate Assets

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Fair value adjustment on real estate assets	(\$43,689)	(\$151,884)	\$108,195	(\$103,903)	(\$246,967)	\$143,064

H&R records its real estate assets at fair value. Fair value adjustments on real estate assets are determined based on the movement of various parameters, including changes in capitalization rates, discount rates and future cash flow projections. Changes in fair value can also occur due to the following factors: (i) realty taxes in accordance with IFRIC 21, (ii) capital and tenant expenditures, (iii) redevelopment costs, and (iv) straight-lining of contractual rent and these factors contributed to the negative fair value adjustment on real estate assets for the three months and year ended December 31, 2019 and 2018. In addition, the fair value adjustment on real estate assets for the three months and year ended December 31, 2018 included fair value decreases to the Retail segment as a result of the changing retail landscape and increased competition in the retail industry.

Gain (Loss) on Sale of Real Estate Assets

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Gain (loss) on sale of real estate assets	(\$11)	(\$267)	\$256	\$25,632	(\$19,602)	\$45,234

For a list of property dispositions, refer to page 11 in this MD&A.

The gain on sale of real estate assets for the year ended December 31, 2019 of \$25.6 million is primarily due to the sale of The Atrium in Toronto, ON. The loss on sale of real estate assets for the year ended December 31, 2018 of \$19.6 million is primarily due to mortgage prepayment penalties and closing costs relating to the 63 U.S. retail properties sold in June 2018.

Gain on Foreign Exchange

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Gain on foreign exchange	\$ -	\$ -	\$ -	\$ -	\$6,886	(\$6,886)

The amounts in the table above were recorded by Finance Trust due to the translation of the U.S. Holdco Notes (a note payable previously owing by U.S. Holdco to Finance Trust) into Canadian dollars prior to the termination of Finance Trust on August 31, 2018. The U.S. Holdco Notes were previously eliminated in the combined financial statements of the Trusts. However, the related foreign exchange difference was not eliminated on combination as it flowed through net income of Finance Trust and other comprehensive income of the REIT as U.S. Holdco is a subsidiary of the REIT and formed part of its net investment in the United States. U.S. Holdco was not a subsidiary of Finance Trust.

Income Tax Expense

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Income tax computed at the Canadian statutory rate of nil applicable to H&R for 2019 and 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current U.S. income taxes (expense) recovery	36	(142)	178	(113)	(760)	647
Deferred income taxes applicable to U.S. Holdco	(10,551)	(37,206)	26,655	(35,267)	(39,457)	4,190
Income tax expense in the determination of net income	(\$10,515)	(\$37,348)	\$26,833	(\$35,380)	(\$40,217)	\$4,837

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) recovery is primarily due to U.S. state taxes and a refund of previously paid alternative minimum tax.

H&R's deferred income tax is recorded in respect of U.S. Holdco and arose due to taxable temporary differences between the tax and accounting bases of assets and liabilities net of the benefit of unused tax credits and losses that are available to be carried forward to future tax years to the extent that it is probable that the unused tax credits and losses can be realized. Deferred income taxes decreased by \$26.7 million and \$4.2 million, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 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, 2019, H&R had net deferred tax liabilities of \$409.4 million (December 31, 2018 - \$392.2 million) primarily related to taxable temporary differences between the tax and accounting bases of U.S. real estate assets.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

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

FFO AND AFFO (in thousands of Canadian dollars except per Unit amounts)	Three Months Ended December 31		Year ended December 31	
	2019	2018	2019	2018
Net income per the REIT's Financial Statements	\$163,402	\$61,115	\$340,289	\$337,918
Realty taxes in accordance with IFRIC 21	(11,173)	(9,914)	-	-
FFO adjustments from equity accounted investments (page 27)	(23,715)	(138,113)	22,407	(128,678)
Exchangeable unit distributions	5,358	5,511	21,872	22,050
Fair value adjustments on financial instruments and real estate assets	1,082	169,216	123,386	235,770
Fair value adjustment to unit-based compensation	(13,525)	3,291	4,512	(1,493)
(Gain) loss on sale of real estate assets	11	267	(25,632)	19,602
(Gain) on foreign exchange	-	-	-	(6,886)
Deferred income taxes applicable to U.S. Holdco	10,551	37,206	35,267	39,457
Incremental leasing costs	1,696	1,891	7,017	7,956
FFO	\$133,687	\$130,470	\$529,118	\$525,696
Straight-lining of contractual rent	(2,211)	1,356	(7,161)	4,113
Capital expenditures	(21,247)	(23,330)	(64,234)	(57,825)
Leasing expenses and tenant inducements	(17,948)	(9,575)	(44,756)	(32,441)
Incremental leasing costs	(1,696)	(1,891)	(7,017)	(7,956)
AFFO adjustments from equity accounted investments (page 27)	(2,091)	(2,045)	(7,901)	(6,145)
AFFO	\$88,494	\$94,985	\$398,049	\$425,442
Weighted average number of Units (in thousands of basic Units adjusted for conversion of exchangeable Units) ⁽¹⁾	301,573	301,200	301,487	302,605
Diluted weighted average number of Units (in thousands of Units) for the calculation of FFO and AFFO ⁽¹⁾⁽²⁾⁽³⁾	302,855	301,881	302,978	304,131
FFO per basic Unit (adjusted for conversion of exchangeable units)	\$0.443	\$0.433	\$1.755	\$1.737
FFO per diluted Unit	\$0.441	\$0.432	\$1.746	\$1.732
AFFO per basic Unit (adjusted for conversion of exchangeable units)	\$0.293	\$0.315	\$1.320	\$1.406
AFFO per diluted Unit	\$0.292	\$0.315	\$1.314	\$1.403
Distributions per Unit	\$0.345	\$0.345	\$1.380	\$1.380
Payout ratio per Unit as a % of FFO	77.9%	79.7%	78.6%	79.4%

⁽¹⁾ For the three months ended December 31, 2019 and 2018, included in the weighted average and diluted weighted average number of Units are exchangeable units of 15,154,073 and 15,540,024, respectively. For the year ended December 31, 2019 and 2018, included in the weighted average and diluted weighted average number of Units are exchangeable units of 15,429,564 and 15,544,685, respectively.

⁽²⁾ For the three months ended December 31, 2019 and 2018, included in the determination of diluted FFO and AFFO with respect to H&R's Unit Option Plan and Incentive Unit Plan are 1,281,677 Units and 681,054 Units, respectively. For the year ended December 31, 2019 and 2018, included in the determination of diluted FFO and AFFO with respect to H&R's Unit Option Plan and Incentive Unit Plan are 1,491,567 Units and 701,032 Units, respectively.

⁽³⁾ The 2020 convertible debentures are dilutive for the year ended December 31, 2018. Therefore, debenture interest of \$1.1 million is added to FFO and AFFO and 824,855 Units are included in the diluted weighted average number of Units outstanding for this period.

FFO for the three months and year ended December 31, 2019 compared to the respective 2018 periods increased by \$3.2 million and \$3.4 million, respectively, primarily due to an increase in FFO from Jackson Park. The increase in FFO for the year ended December 31, 2019 compared to the respective 2018 period was also due to higher lease termination fees, lower finance costs and higher finance income, partially offset by a decrease in property operating income as a result of property dispositions and higher trust expenses.

AFFO for the three months and year ended December 31, 2019 compared to the respective 2018 periods decreased by \$6.5 million and \$27.4 million, respectively, primarily due to property operating income excluding straight-lining of contractual rent as well as higher capital and tenant expenditures.

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

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Lease termination fees	\$ -	\$705	(\$705)	\$7,624	\$2,631	\$4,993
Adjustments to straight-lining of contractual rent	-	-	-	(1,485)	-	(1,485)
Mortgage prepayment penalties	-	(153)	153	(449)	(153)	(296)
	\$ -	\$552	(\$552)	\$5,690	\$2,478	\$3,212

Excluding the above items, FFO would have been \$133.7 million for the three months ended December 31, 2019 (Q4 2018 - \$129.9 million) and \$0.44 per basic Unit (Q4 2018 - \$0.43 per basic Unit). For the year ended December 31, 2019, FFO would have been \$523.4 million (Q4 2018 - \$523.2 million) and \$1.74 per basic Unit (Q4 2018 - \$1.73 per basic Unit).

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

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Additional current year capital expenditure recoveries net of capital expenditures	(\$273)	\$1,003	(\$1,276)	(\$591)	\$852	(\$1,443)
Lease termination fees	-	705	(705)	7,624	2,631	4,993
Mortgage prepayment penalties	-	(153)	153	(449)	(153)	(296)
Capital expenditures	(22,688)	(24,024)	1,336	(68,866)	(60,579)	(8,287)
Leasing expenses and tenant inducements	(18,836)	(10,697)	(8,139)	(46,240)	(35,171)	(11,069)
	(\$41,797)	(\$33,166)	(\$8,631)	(\$108,522)	(\$92,420)	(\$16,102)

Excluding the above items, AFFO would have been \$130.3 million for the three months ended December 31, 2019 (Q4 2018 - \$128.2 million) and \$0.43 per basic Unit (Q4 2018 - \$0.43 per basic Unit). For the year ended December 31, 2019, AFFO would have been \$506.6 million (Q4 2018 - \$517.9 million) and \$1.68 per basic Unit (Q4 2018 - \$1.71 per basic Unit).

Capital and Tenant Expenditures

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

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Office:						
Capital expenditures	\$8,523	\$10,207	(\$1,684)	\$21,856	\$24,855	(\$2,999)
Leasing expenditures and tenant inducements	5,150	4,016	1,134	22,360	12,439	9,921
Retail:						
Capital expenditures	9,562	10,268	(706)	32,171	26,756	5,415
Leasing expenditures and tenant inducements	10,590	5,931	4,659	18,561	14,397	4,164
Industrial:						
Capital expenditures	1,666	167	1,499	3,434	1,619	1,815
Leasing expenditures and tenant inducements	3,096	750	2,346	5,319	8,335	(3,016)
Residential:						
Capital expenditures	2,937	3,382	(445)	11,405	7,349	4,056
Leasing expenditures and tenant inducements	-	-	-	-	-	-
Total at the REIT's proportionate share	41,524	34,721	6,803	115,106	95,750	19,356
Less: equity accounted investments	(2,329)	(1,816)	(513)	(6,116)	(5,484)	(632)
Total per the REIT's Financial Statements ⁽¹⁾	\$39,195	\$32,905	\$6,290	\$108,990	\$90,266	\$18,724

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

Tenant expenditures from the Office segment for the year ended December 31, 2019 included \$7.7 million in tenant allowances paid as part of a lease renewal at two single tenant Calgary office properties.

The largest capital expenditures from the Retail segment for the year ended December 31, 2019 included: (i) backfilling a former Future Shop location with a new Best Buy store at Sunridge Mall in Calgary, AB totalling \$10.2 million; (ii) a food court relocation at Place d'Orleans in Orleans, ON totalling \$5.1 million; and (iii) backfilling a former Safeway location with a new Marshalls store at Garden City Square in Winnipeg, MB totalling \$4.8 million.

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

Tenant expenditures from the Industrial segment for the year ended December 31, 2018 included a \$4.6 million tenant allowance paid as part of a lease renewal to a single tenant at an Ontario industrial property.

The increase in capital expenditures from the Residential segment for the year ended December 31, 2019 is primarily due to H&R having acquired 2,274 residential rental units over the last two years. The largest capital expenditures from the Residential segment for the three months and year ended December 31, 2019 included: (i) a roof replacement and exterior painting at a Florida property totalling \$1.2 million; and (ii) a roof replacement at a Texas property totalling \$0.9 million.

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, 2019	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Cash provided by operations	\$107,263	\$418,039	\$462,123	\$479,239
Net income	163,402	340,289	337,918	667,870
Total distributions ⁽¹⁾	98,685	394,181	395,568	397,908
Excess cash provided by operations over total distributions	8,578	23,858	66,555	81,331
Excess (shortfall) of net income over total distributions	64,717	(53,892)	(57,650)	269,962

⁽¹⁾ Total distributions include cash distributions to unitholders and Unit distributions issued under the DRIP. In February 2018, the Trusts announced the suspension of the DRIP until further notice, commencing with the March 2018 distribution. Following the Reorganization, the DRIP remains suspended until further notice.

Unit distributions issued under the DRIP were nil for the year ended December 31, 2019 (December 31, 2018 - \$16.6 million, December 31, 2017 - \$107.4 million), which are non-cash distributions. Unit distributions issued under the DRIP previously resulted in an increase in the number of Units outstanding, however, the suspension of the DRIP commencing with the March 2018 distribution, has resulted in increased total cash distributions. Distributions exceeded net income for the year ended December 31, 2019 as well as the year ended December 31, 2018 primarily due to non-cash items. Non-cash items relating to the fair value adjustments on financial instruments, real estate assets and unit-based compensation, gain (loss) on sale of real estate assets, gain (loss) on foreign exchange and deferred income tax expense are deducted from or added to net income and have no impact on cash available to pay current distributions.

Major Cash Flow Components

(in thousands of Canadian dollars)	Three months ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
Cash and cash equivalents, beginning of period	\$73,481	\$93,492	(\$20,011)	\$53,073	\$42,284	\$10,789
Cash flows from operations	107,263	122,239	(14,976)	418,039	462,123	(44,084)
Cash flows from (used) investing	(311,128)	(232,622)	(78,506)	(5,407)	175,186	(180,593)
Cash flows from (used) financing	179,024	69,964	109,060	(417,065)	(626,520)	209,455
Cash and cash equivalents, end of period	\$48,640	\$53,073	(\$4,433)	\$48,640	\$53,073	(\$4,433)

Cash flows from operations decreased by \$15.0 million and \$44.1 million, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods, primarily due to a decrease in non-cash working capital. Cash flows from operations for the year ended December 31, 2019 compared to the respective 2018 period was further reduced due to a decrease in property operating income as a result of properties sold throughout 2018 and 2019.

Cash flows from (used) investing decreased by \$78.5 million for the three months ended December 31, 2019 compared to the respective 2018 period primarily due to the issuance of mortgages receivable in Q4 2019 and restricted cash released from escrow as a result of H&R completing Section 1031 property exchanges in Q4 2018, partially offset by cash used to fund property acquisitions in Q4 2018. Cash flows (used) from investing activities decreased by \$180.6 million for the year ended December 31, 2019 compared to the respective 2018 period primarily due to the following: (i) a decrease in net proceeds on disposition of real estate assets; (ii) an increase in mortgages receivable; and (iii) cash spent on properties under development. This was partially offset by less cash spent on acquisitions as well as a cash distribution of U.S. \$194.8 million received by H&R in Q3 2019 as part of the Jackson Park refinancing (equity accounted investment).

Cash flows from (used) financing increased by \$109.1 million and \$209.5 million, respectively, for the three months and year ended December 31, 2019 compared to the respective 2018 periods primarily due to the repayment of debt. Cash flows from (used) financing further increased for the year ended December 31, 2019 compared to the respective 2018 period due to the REIT repurchasing and cancelling \$136.3 million of Units during 2018 compared to nil in 2019.

Capital Resources

Subject to market conditions, management expects to be able to meet all of the REIT's ongoing contractual obligations through cash on hand of \$48.6 million and amounts available under its lines of credit totalling \$290.6 million as at December 31, 2019. In addition, the REIT has \$131.7 million available under its secured construction facilities held through equity accounted investments as at December 31, 2019. As at December 31, 2019, the REIT is not in default or arrears on any of its obligations including interest or principal payments on debt and any debt covenant.

As at December 31, 2019, H&R had 90 unencumbered properties, with a fair value of approximately \$4.0 billion. Also, due to H&R's 23-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, 2019, H&R had 40 properties valued at approximately \$1.5 billion which are encumbered with mortgages totalling \$221.8 million. In this pool of assets, the average loan to value is 14.8%, the minimum loan to value is 0.7% and the maximum loan to value is 29.2%. The weighted average remaining term to maturity of this pool of mortgages is 2.4 years.

The following is a summary of material contractual obligations including payments due as at December 31, 2019 for the next five years and thereafter:

Contractual Obligations ⁽¹⁾ (in thousands of Canadian dollars)	Payments Due by Period				Total
	2020	2021- 2022	2023- 2024	2025 and thereafter	
Mortgages payable	\$183,668	\$1,538,568	\$503,148	\$1,419,041	\$3,644,425
Senior debentures	337,500	325,000	600,000	-	1,262,500
Unsecured term loans	-	192,229	250,000	250,000	692,229
Lines of credit	51,500	439,700	303,842	-	795,042
Lease liability ⁽²⁾	1,029	2,301	2,394	182,326	188,050
Property acquisition	6,608	-	-	-	6,608
Total contractual obligations	\$580,305	\$2,497,798	\$1,659,384	\$1,851,367	\$6,588,854

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

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

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

DBRS has confirmed that H&R has a credit rating of BBB (high) with a Stable trend as at December 31, 2019. This is a rating achieved by only four Canadian REITs (including H&R) as at December 31, 2019. A credit rating of BBB (high) by DBRS is generally an indication of adequate credit quality, where the capacity for payment of financial obligations is considered acceptable, however the entity may be vulnerable to future events. A credit rating of BBB or higher is an investment grade rating. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be withdrawn or revised by DBRS at any time. The credit rating is reviewed periodically by DBRS.

Funding of Future Commitments

Management believes that as at December 31, 2019, through cash on hand of \$48.6 million and the total amount available under its lines of credit of \$290.6 million and its unencumbered property pool of approximately \$4.0 billion, H&R has sufficient funds for future commitments.

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

Year	Number of Properties	Mortgage Debt due on Maturity (\$000's)	Weighted Average Interest Rate on Maturity	Fair Value of Investment Properties (\$000's)	Loan to Value
2020	13	\$64,827	4.5%	\$220,955	29%
2021	11	826,799	3.9%	2,367,358	35%
2022	39	539,940	3.9%	1,652,177	33%
2023	9	386,897	3.9%	737,839	52%
2024	5	5,901	3.9%	385,030	2%
	77	\$1,824,364	3.9%	\$5,363,359	34%

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

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, 2019, H&R has outstanding letters of credit totalling \$36.9 million (December 31, 2018 - \$25.9 million), including \$16.6 million (December 31, 2018 - \$17.3 million) which has been pledged as security for certain mortgages payable. The letters of credit are secured by certain investment properties.

H&R has co-owners and partners in various projects. As a rule, H&R does not provide guarantees or indemnities for these co-owners and partners pursuant to property acquisitions because should such guarantees be provided, recourse would be available against H&R in the event of a default of the co-owners and partners. In such case, H&R would have a claim against the underlying real estate investment. However, in certain circumstances, subject to compliance with H&R's Declaration of Trust and the determination by management that the fair value of the co-owners' or partners' investment is greater than the mortgages payable for which H&R has provided guarantees, such guarantees will be provided. As at December 31, 2019, such guarantees amounted to \$199.0 million expiring between 2021 and 2027 (December 31, 2018 - \$263.9 million, expiring between 2019 and 2029), and no amount has been provided for in the REIT's Financial Statements for these items. These amounts arise where H&R has guaranteed a co-owner's share of the mortgage liability. H&R, however, customarily guarantees or indemnifies the obligations of its nominee companies which hold separate title to each of its properties owned.

H&R continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable until such debts are extinguished or the lenders agree to release H&R's guarantee. As at December 31, 2019, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk is approximately \$41.3 million, which expires in 2020 (December 31, 2018 - \$44.0 million, expiring in 2020). There have been no defaults by the primary obligors for debts on which H&R has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in the REIT's Financial Statements.

DERIVATIVE INSTRUMENTS

Where appropriate, H&R uses interest rate swaps to lock-in lending rates on certain anticipated mortgages, debentures and bank borrowings. This strategy provides certainty to the rate of interest on borrowings when H&R is involved in transactions that may close further into the future than usual for typical transactions. At the end of each reporting period, an interest rate swap is marked-to-market, resulting in an unrealized gain or loss recorded in net income (loss).

Where appropriate, H&R uses forward exchange contracts to lock-in foreign exchange rates. There were no forward exchange contracts outstanding as at December 31, 2019. This strategy manages risks related to foreign exchange rates on transactions that will occur in the future.

During 2018 and 2019, H&R had the following interest rate swaps outstanding:

(in thousands of Canadian dollars)		Fair value asset (liability)*		Net gain (loss) on derivative instruments	
		December 31 2019	December 31 2018	December 31 2019	December 31 2018
Debenture interest rate swap	(1)	\$ -	\$592	(\$592)	(\$1,639)
Debenture interest rate swap	(2)	(404)	(331)	(73)	(331)
Debenture interest rate swap	(3)	-	-	-	(177)
Term loan interest rate swap	(4)	752	4,853	(4,101)	887
Term loan interest rate swap	(5)	(2,777)	-	(2,777)	-
Term loan interest rate swap	(6)	(6,171)	(2,370)	(3,801)	(2,370)
		(\$8,600)	\$2,744	(\$11,344)	(\$3,630)

(1) To fix the interest rate at 2.36% per annum for the Series K senior debentures (settled when these debentures matured on March 1, 2019).

(2) To fix the interest rate at 3.67% per annum for the Series P senior debentures. The swap matures on February 13, 2020.

(3) To fix the interest rate at 2.04% per annum for the Series J senior debentures (settled when these debentures matured on February 9, 2018).

(4) To fix the interest rate at 2.56% per annum on U.S. \$130.0 million term loan. The swap matures on March 17, 2021.

(5) To fix the interest rate at 3.33% per annum on \$250.0 million term loan. The swap matures on March 7, 2026.

(6) To fix the interest rate at 3.91% per annum on \$250.0 million term loan. The swap matures on January 6, 2026.

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

SECTION IV

SELECTED FINANCIAL INFORMATION

Selected Annual Information

The following table summarizes certain financial information for the years indicated below:

(in thousands of Canadian dollars except per Unit amounts)	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
Rentals from investment properties	\$1,149,450	\$1,176,558	\$1,168,454
Net income from equity accounted investments	31,201	169,409	167,407
Finance income	15,036	8,638	4,999
Net income	340,289	337,918	667,870
Total comprehensive income	214,963	532,794	536,598
Total assets	14,483,342	14,691,009	14,558,863
Total liabilities	7,439,425	7,490,909	7,379,100
Cash distributions per Unit	\$1.38	\$1.38	\$1.38

Summary of Quarterly Results

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

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

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Rentals from investment properties	\$297,416	\$286,223	\$294,302	\$298,617
Net income from equity accounted investments	148,165	8,143	6,864	6,237
Net income	61,115	105,509	108,194	63,100
Total comprehensive income	200,450	71,065	144,329	116,950

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.

Net income (loss) from equity accounted investments increased by \$55.4 million in Q4 2019 compared to Q3 2019 primarily due to fair value adjustments to Jackson Park.

Net income increased by \$94.1 million in Q4 2019 compared to Q3 2019 primarily due to the net income (loss) from equity accounted investments noted above and fair value adjustments on financial instruments.

Total comprehensive income increased by \$30.0 million in Q4 2019 compared to Q3 2019 primarily due to the increase in net income noted above, partially offset by a loss from investment in foreign operations of \$43.9 million in Q4 2019 compared to a gain of \$20.2 million in Q3 2019.

PORTFOLIO OVERVIEW

The geographic diversification of the portfolio of properties in which the REIT has an interest and the related square footage is disclosed at the REIT's proportionate share as at December 31, 2019 in the tables below:

Number of Properties ⁽¹⁾	<u>Canada</u>				Subtotal	United States	Total
	Ontario	Alberta	Other				
Office	19	4	4	27	6	33	
Retail ⁽²⁾	38	17	14	69	242	311	
Industrial	35	19	29	83	4	87	
Residential ⁽³⁾	-	-	-	-	24	24	
Total	92	40	47	179	276	455	

Square Feet (in thousands) ⁽¹⁾	<u>Canada</u>				Subtotal	United States	Total
	Ontario	Alberta	Other				
Office	5,367	2,607	893	8,867	1,944	10,811	
Retail ⁽²⁾	3,684	3,969	2,758	10,411	3,068	13,479	
Industrial	4,462	2,030	2,012	8,504	673	9,177	
Residential ⁽³⁾	-	-	-	-	7,735	7,735	
Total	13,513	8,606	5,663	27,782	13,420	41,202	

⁽¹⁾ H&R has 11 properties under development which are not included in the tables above.

⁽²⁾ Retail, which includes ECHO's equity accounted investment, has 13 properties under development which are not included in the tables above.

⁽³⁾ The residential properties contain 8,443 residential rental units.

LEASE MATURITY PROFILE

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

Canadian Portfolio:

LEASE EXPIRIES	Office		Retail		Industrial		Total	
	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry
2020	48,049	20.85	837,481	25.50	488,321	5.31	1,373,851	18.16
2021	346,821	20.21	1,013,196	22.88	249,956	5.83	1,609,973	19.66
2022	120,645	24.49	799,649	23.37	1,166,368	6.84	2,086,662	14.20
2023	100,049	31.50	493,647	34.22	387,312	6.62	981,008	23.05
2024	581,168	11.97	927,757	23.89	749,382	7.68	2,258,307	15.44
	1,196,732	17.61	4,071,730	25.12	3,041,339	6.69	8,309,801	17.29
Total % of each segment	13.5%		39.1%		35.8%		29.9%	

U.S. Portfolio⁽¹⁾:

LEASE EXPIRIES	Office		Retail		Industrial		Total	
	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry	Sq.ft.	Rent per sq.ft. (\$) on expiry
2020	-	-	190,917	23.68	-	-	190,917	23.68
2021	-	-	160,001	20.79	-	-	160,001	20.79
2022	563	61.74	221,446	24.70	54,654	4.94	276,663	20.87
2023	85,725	5.86	186,933	24.48	412,585	3.00	685,243	9.22
2024	172,039	24.93	159,342	15.69	123,090	3.75	454,471	15.95
	258,327	18.68	918,639	22.20	590,329	3.34	1,767,295	15.38
Total % of each segment	13.3%		29.9%		87.7%		31.1%	

⁽¹⁾ U.S. dollars.

TOP TWENTY SOURCES OF REVENUE BY TENANT

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

Tenant	% of rentals from investment properties ⁽¹⁾	Number of locations	H&R owned sq.ft. (in 000's)	Average lease term to maturity (in years) ⁽²⁾	Credit Ratings (S&P)
1. Ovintiv Inc. (formerly Encana Corporation) ⁽³⁾	11.7%	1	1,997	18.4	BBB Stable
2. Bell Canada	8.1%	23	2,537	14.8	BBB+ Stable
3. Hess Corporation	5.4%	1	845	⁽⁹⁾	BBB- Stable
4. New York City Department of Health	3.8%	1	660	10.9	AA Stable
5. Giant Eagle, Inc.	3.4%	190	1,652	11.3	Not Rated
6. Canadian Tire Corporation ⁽⁴⁾	2.8%	20	2,659	6.9	BBB+ Stable
7. TC Energy Corporation	1.9%	1	466	11.3	BBB+ Stable
8. Lowe's Companies, Inc. ⁽⁵⁾	1.8%	14	1,710	11.8	BBB+ Stable
9. Corus Entertainment Inc.	1.7%	1	472	13.2	BB Negative
10. Telus Communications	1.3%	17	357	6.0	BBB+ Negative
11. Shell Oil Products	1.2%	16	209	2.7	AA- Stable
12. Public Works and Government Services, Canada	1.1%	5	342	4.5	AAA Stable
13. Toronto-Dominion Bank	1.0%	7	286	7.3	AA- Stable
14. Loblaw Companies Limited ⁽⁶⁾	0.9%	19	273	8.8	BBB Stable
15. Royal Bank of Canada	0.9%	5	247	5.4	AA- Stable
16. Empire Company Limited ⁽⁷⁾	0.8%	14	492	11.1	BB+ Positive
17. The TJX Companies Inc. ⁽⁸⁾	0.8%	17	625	5.7	A+ Stable
18. Canadian Imperial Bank of Commerce	0.6%	9	191	5.3	A+ Stable
19. Hudson's Bay Company	0.6%	7	958	6.8	Not rated
20. Metro Inc.	0.6%	12	420	5.5	BBB Stable
Total	50.4%	380	17,398	11.7	

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

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

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

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

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

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

⁽⁷⁾ Empire Company Limited includes Sobeys, Sobeys's Liquor, Safeway and Lawtons Drugs.

⁽⁸⁾ The TJX Companies Inc. includes Winners, T.J. Maxx, Marshalls and Home Sense.

⁽⁹⁾ Due to the confidentiality under the tenant's lease, the term is not disclosed.

SECTION V

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

For a description of the accounting policies that management believes are subject to greater estimation and judgement, as well as other accounting policies, refer to notes 1 and 2 of the REIT's Financial Statements.

Use of Estimates

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

- Fair value of real estate assets; and
- Deferred tax asset (liability).

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 qualified external valuation professionals or by management. The valuations are based on a number of assumptions, such as appropriate discount rates and capitalization rates and estimates of future rental income, operating expenses and capital expenditures. Valuation of real estate assets is one of the principal estimates and uncertainties 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 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's policy for property rental revenue recognition is described in note 2(r) of the REIT's Financial Statements. 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 are operating leases.

- Income taxes

H&R currently qualifies as a real estate investment trust and a mutual fund trust for Canadian income tax purposes. A real estate investment trust will not be subject to the tax levied on "specified investment flow-through" ("SIFT") trusts provided it continues to meet prescribed conditions under the Tax Act, including with respect to the nature of its assets and revenue, (the "REIT Conditions") at all times throughout a taxation year. Accordingly, no provision for current or deferred income taxes has been recorded by H&R as at December 31, 2019 in respect of its Canadian entities.

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

- Impairment of equity accounted investments

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

- Business combinations

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

SIGNIFICANT ACCOUNTING POLICIES

Accounting standards adopted in 2019:

(i) *Leases ("IFRS 16")*

IFRS 16, *Leases*, replaced previous lease guidance in IFRS and related interpretations, and requires lessees to bring most leases on-balance sheet. Lessor accounting remains similar to the previous standard. The REIT adopted IFRS 16 beginning on January 1, 2019, the mandatory effective date. There was no material impact from the adoption of IFRS 16 on the REIT's Financial Statements.

(ii) *IFRIC Interpretation 23, Uncertainty over Income Tax Treatments ("IFRIC 23")*

The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires the REIT to: a) contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; and b) determine if it is probable that the tax authorities will accept the uncertain tax treatment or if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. The REIT adopted IFRIC 23 beginning on January 1, 2019, the mandatory effective date. There was no material impact from the adoption of IFRIC 23 on the REIT's Financial Statements.

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, 2019, 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, 2019. The REIT's Financial Statements and this MD&A were reviewed and approved by H&R's Audit Committee and the Board of Trustees prior to this publication.

H&R's management has reviewed its respective internal control over financial reporting on an annual basis. The REIT's management, under the supervision of the CEO and the CFO, has evaluated the effectiveness of internal control over financial reporting as at December 31, 2019 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, 2019. No changes were made to H&R's internal control over financial reporting during the three-month period ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

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

SECTION VI

RISKS AND UNCERTAINTIES

All real estate assets are subject to a degree of risk and uncertainty. They are affected by various factors including general market conditions and local market circumstances. An example of general market conditions would be the availability of long-term mortgage financing whereas local conditions would relate to factors affecting specific properties such as an oversupply of space or a reduction in demand for real estate in a particular area. Management attempts to manage these risks through geographic, type of asset and tenant diversification in H&R's portfolio. The major risk factors including detailed descriptions are outlined below and in H&R's Annual Information Form.

Real Property Ownership

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

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

Given the prominence of the oil and gas industry in the province of Alberta, the economy of this province can be significantly impacted by commodity prices. For the year ended December 31, 2019, approximately 25.3% of property operating income at the REIT's proportionate share was generated from Alberta. Accordingly, any continuing decline or prolonged weakness in commodity prices, could adversely affect those tenants of H&R that are involved in the oil and gas industry, thereby increasing the credit risk of such tenants to H&R which in turn may adversely affect H&R's operating results.

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

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

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

H&R may, in the future, be exposed to a general decline of demand by tenants for space in properties. As well, certain of the leases of the properties held by H&R have early termination provisions and such termination rights are generally exercisable at a cost to the tenant only. The amount of space in H&R's portfolio which could be affected is not significant.

A mortgage on any one property may, from time to time, exceed the estimated current market value of the related property. The cash flow from such a property may not be sufficient to cover debt servicing for that property. The cash flow from H&R's portfolio is, however, expected by management to be sufficient to cover any cash flow shortfalls on such a property.

Credit Risk and Tenant Concentration

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

H&R is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. Management has diversified H&R's holdings so that it owns

several categories of properties (office, retail, industrial and residential) and acquires properties throughout Canada and the United States. In addition, management ensures that no tenant or related group of tenants, other than investment grade tenants, account for a significant portion of the cash flow. The only tenants which individually account for more than 5% of the rentals from investment properties of H&R are Ovintiv Inc., Bell Canada and Hess Corporation. All of these companies have a public debt rating that is rated with at least a BBB- Stable rating by a recognized rating agency.

Lease Rollover Risk

Lease rollover risk arises from the possibility that H&R may experience difficulty renewing leases as they expire. Management attempts to enter into long-term leases to mitigate this risk. Management attempts to mitigate the risk by having staggered lease maturities and entering into longer term leases with built-in rental escalations. The leases for 30.1% of H&R's total commercial leasable area will expire in the next 5 years.

Interest and Other Debt-Related Risk

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

Construction Risks

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

Currency Risk

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

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

Liquidity Risk

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

Cyber Security Risk

Cyber security has become an increasingly problematic issue for issuers and businesses in Canada and around the world, including H&R. Cyber attacks against large organizations are increasing in sophistication and are often focused on financial fraud, compromising sensitive data for inappropriate use or disrupting business operations. A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of H&R's information resources. More specifically, a cyber-incident is an intentional attack or an unintentional event that can include gaining unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information. As H&R's reliance on technology has increased, so have the risks posed to its systems. H&R's primary risks that could directly result from the occurrence of a cyber-incident include operational interruption, damage to its reputation, damage to H&R's business relationships with its tenants, disclosure of confidential information regarding its tenants, employees and third parties with whom H&R interacts, and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation. H&R has implemented processes, procedures and controls to help mitigate these risks, but these measures, as well as its increased awareness of a risk of a cyber-incident, do not guarantee that its financial results will not be negatively impacted by such an incident.

Financing Credit Risk

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

Environmental Risk

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

In accordance with best management practices, Phase 1 environmental audits are reviewed on all properties prior to acquisition. Further investigation is conducted if Phase 1 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.

Co-Ownership Interest in Properties

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

Joint Arrangement Risks

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

Unit Prices

Publicly traded trust Units will not necessarily trade at values determined solely by reference to the underlying value of trust assets. Accordingly, Units may trade at a premium or a discount to the underlying value of the assets of H&R. See also "Forward-Looking Disclaimer".

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

Availability of Cash for Distributions

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

Ability to Access Capital Markets

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

Dilution

The number of Units H&R is authorized to issue is unlimited. The trustees have the discretion to issue additional Units in certain circumstances, including under H&R's Unit Option Plan and Incentive Unit Plan. In addition, H&R may issue Units pursuant to the DRIP and Unit Purchase Plan. Any issuance of Units may have a dilutive effect on the investors of Units.

Unitholder Liability

H&R's Declaration of Trust provides that unitholders will have no personal liability for actions of the REIT and no recourse will be available to the private property of any unitholder for satisfaction of any obligation or claims arising out of a contract or obligation of a trust. H&R's Declaration of Trust further provides that this lack of unitholder liability, where possible, must be provided for in certain written instruments signed by the REIT. In addition, legislation has been enacted in the Provinces of Ontario and certain other provinces that is intended to provide unitholders in those provinces with limited liability. However, there remains a risk, which H&R considers to be remote in the circumstances, that a unitholder could be held personally liable for a Trust's obligations to the extent that claims are not satisfied out of the REIT's assets. It is intended that the REIT's affairs will be conducted to seek to minimize such risk wherever possible.

Redemption Right

Unitholders are entitled to have their Units redeemed at any time on demand. It is anticipated that this redemption right will not be the primary mechanism for unitholders to liquidate their investments. The entitlement of holders of Units to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by H&R in respect of those Units and all other Units tendered for redemption in the same calendar month does not exceed \$50,000 (subject to certain adjustments and provided that the trustees of H&R may waive this limitation at their sole discretion), (ii) at the time such Units are tendered for redemption, the outstanding Units shall be listed for trading or quoted on a stock exchange or traded or quoted on another market which the trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and (iii) the normal trading of the Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not so listed, on any market on which the Units are quoted for trading) on the redemption date or for more than five trading days during the ten-day trading period commencing immediately prior to such date. In certain circumstances, H&R's Declaration of Trust provides for the in specie distributions of notes of H&R Portfolio LP Trust in the event of redemption of Units. The notes which may be distributed in specie to unitholders in connection with a redemption will not be listed on any stock exchange, no established market is expected to develop for such notes and they may be subject to resale restrictions under applicable securities laws.

Debentures

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

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

Tax Risk

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

Based on a review of H&R's assets and revenues, management believes that H&R satisfied the tests to qualify for the REIT Exemption for 2019. Management of H&R intends to conduct the affairs of H&R so that it qualifies for the REIT Exemption at all times. However, as the REIT Exemption includes complex revenue and asset tests, no assurances can be provided that H&R will continue to qualify for any subsequent year.

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

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

H&R operates in the United States through U.S. Holdco, which is capitalized with debt and equity provided by H&R. During 2018, H&R made loans to U.S. Holdco ("U.S. Holdco Loans"), including a revolving loan that U.S. Holdco drew upon in 2019, to refinance existing loans, including U.S. Holdco Notes, or indirectly fund additional U.S. Holdco acquisitions of income generating real property. Management anticipates that U.S. Holdco will continue to borrow funds from H&R in the future for similar purposes, to fund its operations or to refinance existing loans. U.S. Holdco treats the U.S. Holdco Notes and U.S. Holdco Loans as indebtedness for U.S. federal income tax purposes. If the IRS or a court were to determine that the U.S. Holdco Notes and/or the U.S. Holdco Loans should be treated for U.S. federal income tax purposes as equity rather than debt, the interest on the U.S. Holdco Notes and/or the U.S. Holdco Loans could be treated as a dividend, and interest on the U.S. Holdco Notes and/or the U.S. Holdco Loans would not be deductible for U.S. federal income tax purposes. In addition, if the IRS were to determine that the interest rate on the U.S. Holdco Notes and/or the U.S. Holdco Loans did not represent an arm's length rate, any excess amount over the arm's length rate would not be deductible and could be re-characterized as a dividend payment instead of an interest payment. This would significantly increase the U.S. federal income tax liability of U.S. Holdco, potentially including the tax liability for prior years in which U.S. Holdco has claimed a deduction for interest paid on the U.S. Holdco Notes. In addition, U.S. Holdco could be subject to penalties. Such an increase in tax liability could materially adversely affect U.S. Holdco's ability to make interest payments on the U.S. Holdco Loans or H&R's ability to make distributions on its Units.

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

Under U.S. Tax Reform, Prior Section 163(j) has been repealed and replaced with a new section 163(j) that is applicable to taxable years beginning after December 31, 2017. New section 163(j) applies to both related and third-party debt and there is no debt to equity ratio safe harbor. New section 163(j) limits all interest deductions (related and third party) to 30% of "adjusted taxable income" (defined similarly to earnings before interest, taxes, depreciation and amortization for taxable years beginning before January 1, 2022, and earnings before interest and taxes thereafter). However, there is an exception to the limitation of new section 163(j) for certain "real property trades or businesses" that make an irrevocable election. If such an election is made, the real property trade or business is required to use the alternative depreciation system (ADS) to depreciate certain assets for U.S. federal income tax purposes. Management believes U.S. Holdco was eligible to make this election and did so for 2018 onwards.

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

Additional Tax Risks Applicable to Unitholders

H&R is classified as a foreign corporation for United States federal income tax purposes. A foreign corporation will be classified as a passive foreign investment company, or "PFIC," for United States federal income tax purposes if either (i) 75% or more of its gross income is passive income or (ii) on average for the taxable year, 50% or more of its assets (by value) produce or are held for the production of passive income. If H&R were treated as a PFIC, then in the absence of certain elections being made by a U.S. Unitholder with respect to such U.S. unitholder's Units, any distributions in respect of Units which are treated as "excess distribution" under the applicable rules and any gain on a sale or other disposition of Units would be treated as ordinary income and would be subject to special tax rules, including an interest charge. In addition, if H&R were treated as a PFIC, then dividends paid on Units will not qualify for the reduced 20% U.S. federal income tax rate applicable to certain qualifying dividends received by non-corporate taxpayers.

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

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

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

A holder of Units that is a resident of the U.S. for purposes of the Tax Act will generally be subject to Canadian withholding tax under Part XIII of the Tax Act at the rate of 25% on the portion of the income of H&R (including taxable capital gains deemed to be "TCP gains distributions" for purposes of the Tax Act) paid or credited (whether in cash or *in specie*) in respect of such Units, subject to reduction under the *Canada-U.S. Tax Convention* (the "U.S. Treaty") if applicable. The withholding rate applicable to a U.S. unitholder entitled to the benefits of the U.S. Treaty in respect of such income generally would be reduced to 15% in the case of income arising in Canada and to 0% in the case of income arising outside of Canada. U.S. unitholders may be entitled to a refund of a portion of such withholding tax if the rate applied by H&R were determined to be excessive. You should consult with your own tax advisor regarding the advisability of applying for such a refund.

OUTSTANDING UNIT DATA

The beneficial interests in the REIT are represented by two classes of Units: Units which are unlimited in number; and special voting units of which a maximum of 9,500,000 may be issued. Each Unit carries a single vote at any meeting of unitholders of the REIT. Each special voting unit carries a single vote at any meeting of unitholders of the REIT. As at February 5, 2020, there were 286,690,236 Units issued and outstanding and 9,500,000 special voting units outstanding.

As at December 31, 2019, the maximum number of Units authorized to be issued under H&R's Unit Option Plan was 17,723,110. Of this amount, 10,647,642 options to purchase Units have been granted and are outstanding and 7,075,468 options have not yet been granted. As at February 5, 2020, there were 10,647,642 options to purchase Units outstanding and fully vested.

As at December 31, 2019, 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 1,018,896 incentive units which remain outstanding, 11,452 have been settled for Units and 3,969,652 incentive units have not yet been granted. As at February 5, 2020, there were 1,024,323 incentive units outstanding.

As at December 31, 2019 and February 5, 2020, there were 15,316,239 exchangeable units outstanding of which 9,500,000 exchangeable units are accompanied by special voting units.

ADDITIONAL INFORMATION

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

SUBSEQUENT EVENTS

- (a) In January 2020, the REIT sold two U.S. residential properties which were classified as held for sale as at December 31, 2019, for gross proceeds of U.S. \$89.9 million.
- (b) In January 2020, the REIT received \$256.0 million for the repayment of a mortgage receivable.

Consolidated Financial Statements of

H&R REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2019 and 2018



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INDEPENDENT AUDITORS' REPORT

To the Unitholders of H&R Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of H&R REIT ("the Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2019 and December 31, 2018;
- the consolidated statement of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statement of cash flows for the years then ended; and
- notes to the consolidated financial statements, including a summary of significant accounting policies.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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



Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions; and
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "2019 Annual Report".

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

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

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the information other than the financial statements and the auditors' report thereon, included in a document entitled "2019 Annual Report" as at the date of this auditors' report.

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

We have nothing to report in this regard.

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

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

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

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



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.



H&R Real Estate Investment Trust
February 13, 2020

- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

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

Toronto, Canada

February 13, 2020

H&R REAL ESTATE INVESTMENT TRUST

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

	<i>Note</i>	December 31 2019	December 31 2018
Assets			
Real estate assets:			
Investment properties	3	\$ 11,988,347	\$ 12,683,709
Properties under development	3	683,145	404,814
		12,671,492	13,088,523
Equity accounted investments	4	1,002,773	1,284,985
Assets classified as held for sale	5	135,673	110,940
Other assets	6	624,764	153,488
Cash and cash equivalents	7	48,640	53,073
		\$ 14,483,342	\$ 14,691,009
Liabilities and Unitholders' Equity			
Liabilities:			
Debt	8	\$ 6,375,860	\$ 6,546,072
Exchangeable units	9	323,173	329,482
Deferred tax liability	21	409,381	392,214
Accounts payable and accrued liabilities	10	281,595	223,141
Liabilities classified as held for sale	5	49,416	-
		7,439,425	7,490,909
Unitholders' equity		7,043,917	7,200,100
Commitments and contingencies	22		
Subsequent events	24		
		\$ 14,483,342	\$ 14,691,009

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Trustees:

"Stephen Sender" Trustee

"Thomas J. Hofstedter" Trustee

H&R REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Comprehensive Income

(In thousands of Canadian dollars)

Years ended December 31, 2019 and 2018

	<i>Note</i>	2019	2018
Property operating income:			
Rentals from investment properties	14	\$ 1,149,450	\$ 1,176,558
Property operating costs		(438,475)	(442,626)
		710,975	733,932
Net income from equity accounted investments	4	31,201	169,409
Finance cost - operations	15	(256,496)	(267,087)
Finance income	15	15,036	8,638
Trust expenses		(27,293)	(18,271)
Fair value adjustment on financial instruments	15	(19,483)	11,197
Fair value adjustment on real estate assets	3	(103,903)	(246,967)
Gain (loss) on sale of real estate assets, net of related costs	3	25,632	(19,602)
Gain on foreign exchange		-	6,886
Net income before income taxes		375,669	378,135
Income tax expense	21	(35,380)	(40,217)
Net income		340,289	337,918
Other comprehensive income (loss):			
Items that are or may be reclassified subsequently to net income	13	(125,326)	194,876
Total comprehensive income attributable to unitholders		\$ 214,963	\$ 532,794

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, 2019 and 2018

UNITHOLDERS' EQUITY	Note	Value of Units	Accumulated net income	Accumulated distributions	Accumulated other comprehensive income	Total
Unitholders' equity, January 1, 2018		\$ 5,483,353	\$ 5,220,144	\$ (3,700,682)	\$ 176,948	\$ 7,179,763
Proceeds from issuance of Units		19,313	-	-	-	19,313
Net income		-	337,918	-	-	337,918
Distributions to unitholders	12(c)	-	-	(395,568)	-	(395,568)
Conversion of convertible debentures	8(b)	70	-	-	-	70
Units repurchased and cancelled	12(d)	(136,272)	-	-	-	(136,272)
Other comprehensive income	13	-	-	-	194,876	194,876
Unitholders' equity, December 31, 2018		5,366,464	5,558,062	(4,096,250)	371,824	7,200,100
Proceeds from issuance of Units		23,035	-	-	-	23,035
Net income		-	340,289	-	-	340,289
Distributions to unitholders	12(c)	-	-	(394,181)	-	(394,181)
Other comprehensive loss	13	-	-	-	(125,326)	(125,326)
Unitholders' equity, December 31, 2019		\$ 5,389,499	\$ 5,898,351	\$ (4,490,431)	\$ 246,498	\$ 7,043,917

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, 2019 and 2018

	<i>Note</i>	2019	2018
Cash provided by (used in):			
Operations:			
Net income		\$ 340,289	\$ 337,918
Finance cost - operations	15	256,496	267,087
Interest paid		(273,701)	(268,156)
Items not affecting cash:			
Net income from equity accounted investments	4	(31,201)	(169,409)
Rent amortization of tenant inducements	14	2,354	1,988
Gain on foreign exchange		-	(6,886)
Fair value adjustment on real estate assets	3	103,903	246,967
(Gain) loss on sale of real estate assets, net of related costs	3	(25,632)	19,602
Fair value adjustment on financial instruments	15	19,483	(11,197)
Unit-based compensation expense	12(b)	10,144	2,413
Deferred income taxes	21	35,267	39,457
Change in other non-cash operating items	16	(19,363)	2,339
		418,039	462,123
Investing:			
Properties under development:			
Acquisition	3, 16	(14,595)	(31,876)
Additions	3, 16	(233,638)	(115,491)
Investment properties:			
Net proceeds on disposition of real estate assets		612,510	879,347
Acquisitions	3	(188,454)	(463,299)
Redevelopment	3, 16	(125,060)	(58,121)
Capital expenditures	3	(64,234)	(57,825)
Leasing expenses and tenant inducements	3	(44,756)	(32,441)
Equity accounted investments, net	4	253,941	110,603
Mortgages receivable, net		(204,294)	(68,150)
Restricted cash	5, 6	3,173	12,439
		(5,407)	175,186
Financing:			
Unsecured term loans	8(d)	250,000	250,000
Lines of credit	8(d)	463,878	(196,323)
Mortgages payable:			
New mortgages payable	8(a)	224,631	619,788
Principal repayments	8(a)	(617,689)	(536,908)
Redemption of debentures payable	8(b)	(350,000)	(657,082)
Proceeds from issuance of debentures payable	8(b)	-	409,205
Proceeds from issuance of Units		6,296	8
Units repurchased and cancelled	12(d)	-	(136,272)
Distributions to unitholders	12(c)	(394,181)	(378,936)
		(417,065)	(626,520)
Increase (decrease) in cash and cash equivalents		(4,433)	10,789
Cash and cash equivalents, beginning of year	7	53,073	42,284
Cash and cash equivalents, end of year	7	\$ 48,640	\$ 53,073

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

See accompanying notes to the consolidated financial statements.

H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

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

On August 31, 2018, the REIT and Finance Trust (together with the REIT, the "Trusts") effected a reorganization ("Reorganization") by way of plan of arrangement involving the REIT, Finance Trust and certain of the REIT's subsidiaries resulting in, among other things, (i) Finance Trust transferring debt owed to it by H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco") to the REIT for nil consideration and (ii) unitholders subsequently transferring their Finance Trust units to the REIT for nominal consideration and retaining their Units. Following these transactions, Finance Trust was terminated, resulting in the Units no longer being stapled to units of Finance Trust and unitholders holding only REIT Units.

These consolidated financial statements include the results of the REIT and Finance Trust as previously reported on a combined basis, as units of the Trusts were previously stapled ("Stapled Units"), up to August 31, 2018. For the period prior to August 31, 2018, references to Units should be read as referring to Stapled Units.

1. Basis of preparation:

(a) Statement of compliance

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

The consolidated financial statements were approved by the Board of Trustees of the REIT on February 13, 2020.

(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.

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) Derivative instruments;
- (iv) Liabilities for cash-settled unit-based compensation; and
- (v) Exchangeable units.

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Years ended December 31, 2019 and 2018

1. Basis of preparation (continued):

(d) Use of estimates and judgements

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

(i) Use of estimates

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

- Fair value of real estate assets (note 3); and
- Deferred tax asset (liability) (note 21).

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

- Leases

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

- Income taxes

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

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1. Basis of preparation (continued):

- Impairment of equity accounted investments

The REIT determines at each reporting date whether there is any objective evidence that the equity accounted investments are impaired. If 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* ("IAS 36") by comparing the recoverable amount with its carrying value. Any resulting impairment loss will be charged against the carrying value of the investment in associates or joint ventures and recognized in net income.

- Business combinations

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

2. Significant accounting policies:

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

(a) *Basis of consolidation:*

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

(b) *Basis of combination:*

The principles used to prepare the 2018 comparative combined financial statements for the period prior to August 31, 2018 are similar to those used to prepare consolidated financial statements. For the period prior to August 31, 2018, the combined financial statements include other comprehensive income (loss) and cash flows of the Trusts, after elimination of the REIT's interest expense and Finance Trust's interest income on the REIT's notes payable to Finance Trust.

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

(c) *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, they are measured at fair value, under IAS 40, *Investment Property* ("IAS 40").

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

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2. Significant accounting policies (continued):

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

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

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

(d) *Properties under development:*

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

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

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

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

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

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

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

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2. Significant accounting policies (continued):

(f) *Income taxes:*

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

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

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

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

The REIT is a mutual fund trust and a real estate investment trust pursuant to the Tax Act. Under current tax legislation, a real estate investment trust is entitled to deduct distributions from taxable income such that it is not liable to pay income tax provided that its taxable income is fully distributed to unitholders. The REIT intends to continue to qualify as a real estate investment trust and to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes. The REIT qualified as a real estate investment trust throughout 2019 and the 2018 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.

(g) *Unit-based compensation:*

The REIT has a unit option plan and incentive unit plan available for REIT trustees, officers, employees and consultants as disclosed in note 12(b). These plans are considered to be a cash-settled liability under IFRS 2, *Share-based Payment* ("IFRS 2") and as a result are measured at each reporting period and at settlement date at their fair value as defined by IFRS. The fair value of the amount payable to participants in respect of the unit option plan and incentive unit plan is recognized as an expense with a corresponding increase or decrease in liabilities, over the period that the employees unconditionally become entitled to payment. Any change in the fair value of the liability is recognized as a component of trust expenses.

(h) *Cash and cash equivalents:*

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

(i) *Restricted cash:*

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

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2. Significant accounting policies (continued):

(j) *Foreign currency translation:*

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

The foreign currency translation adjustment is recorded as a separate component of accumulated other comprehensive income until there is a reduction in the REIT's net investment in the foreign operations. The U.S. dollar denominated senior debenture, unsecured term loan and lines of credit are designated as a hedge of the REIT's investment in self-sustaining operations. Accordingly, the accumulated unrealized gains or losses arising from the translation of these obligations are recorded as a foreign currency translation adjustment in accumulated other comprehensive income.

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

(k) *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.

(l) *Finance costs:*

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

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

(m) *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 accounts for investments in associates using the equity method.

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

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

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2. Significant accounting policies (continued):

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.

(n) *Joint Operations:*

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

(o) *Business Combinations:*

The purchase method of accounting is used for acquisitions meeting the definition of a business. The consideration transferred in a business combination is measured at fair value.

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

(p) *Levies:*

Under IFRS Interpretations Committee ("IFRIC") Interpretation 21, *Levies* ("IFRIC 21") realty taxes payable by the REIT are considered levies. Based on the guidance of IFRIC 21, the REIT recognizes the full amount of annual U.S. realty tax liabilities at the point in time when the realty tax obligation is imposed.

(q) *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.

(r) *Revenue from contracts with customers:*

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

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

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

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

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2. Significant accounting policies (continued):

(s) *Financial instruments:*

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

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

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

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

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

For impairment of financial assets, IFRS 9 has a forward-looking 'expected credit loss' ("ECL") model. This impairment model applies to financial assets except for investments in equity instruments, and to contract assets, lease receivables, loan commitments and financial guarantee contracts.

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

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

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

(t) *Accounting standards adopted in 2019:*

(i) *Leases* ("IFRS 16")

IFRS 16, *Leases*, replaced previous lease guidance in IFRS and related interpretations, and requires lessees to bring most leases on-balance sheet. Lessor accounting remains similar to the previous standard. The REIT adopted IFRS 16 beginning on January 1, 2019, the mandatory effective date. There was no material impact from the adoption of IFRS 16 on the consolidated financial statements.

The objective of IFRS 16 is to report information that faithfully represents lease transactions and provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognize assets and liabilities arising from a lease. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

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2. Significant accounting policies (continued):

(ii) IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23")

The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires the REIT to: a) contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; and b) determine if it is probable that the tax authorities will accept the uncertain tax treatment or if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. The REIT adopted IFRIC 23 beginning on January 1, 2019, the mandatory effective date. There was no material impact from the adoption of IFRIC 23 on the consolidated financial statements.

3. Real estate assets:

	December 31, 2019		December 31, 2018	
	Investment Properties	Properties Under Development	Investment Properties	Properties Under Development
Opening balance, beginning of year	\$ 12,683,709	\$ 404,814	\$ 13,074,123	\$ 83,132
Acquisitions, including transaction costs	188,454	14,595	463,299	196,754
Dispositions	(749,830)	-	(933,403)	-
Transfer of investment properties to assets classified as held for sale	(116,805)	-	(110,940)	-
Operating capital:				
Capital expenditures	64,234	-	57,825	-
Leasing expenses and tenant inducements	44,756	-	32,441	-
Development capital:				
Redevelopment (including capitalized interest)	130,409	-	60,892	-
Additions to properties under development (including capitalized interest)	-	245,938	-	119,117
Amortization of tenant inducements and straight-lining of contractual rents	4,807	-	3,088	-
Right-of-use asset ⁽¹⁾	-	32,002	-	-
Fair value adjustment on real estate assets	(103,903)	-	(246,967)	-
Change in foreign exchange	(157,484)	(14,204)	283,351	5,811
Closing balance, end of year	\$ 11,988,347	\$ 683,145	\$ 12,683,709	\$ 404,814

(1) The right-of-use asset in a leasehold interest was measured at an amount equal to the corresponding lease liability (note 10).

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3. Real estate assets (continued):

Asset acquisitions:

During the year ended December 31, 2019, the REIT acquired two residential properties, one industrial property and two properties under development (year ended December 31, 2018 - acquired five residential properties, partial ownership in two industrial properties and three properties under development). The results of operations for these acquisitions are included in these consolidated financial statements from the date of acquisition.

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

	December 31 2019	December 31 2018
Assets		
Investment properties	\$ 188,375	\$ 462,961
Properties under development	14,595	196,754
	\$ 202,970	\$ 659,715

During the year ended December 31, 2019, the REIT incurred additional costs of \$79 (year ended December 31, 2018 - \$338) in respect of prior year acquisitions which are not included in the above table.

Asset dispositions:

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

During the year ended December 31, 2018, the REIT sold 65 retail properties, a 50% ownership interest in four industrial properties, a 75% ownership interest in one industrial property and a 50% ownership interest in one office property and recognized a loss on sale of real estate assets of \$19,602.

Fair value disclosure:

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

- (i) Consideration of recent sales of similar properties within similar market areas;
- (ii) Discounted cash flow analyses which are based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at each reporting period, less future cash outflows in respect of such leases and capital expenditures for the property utilizing appropriate discount rates and terminal capitalization rates, generally over a projection period of ten years;
- (iii) The direct capitalization method which calculates fair value by applying a capitalization rate to stabilized net operating income; and
- (iv) Obtaining external independent appraisals. During the year ended December 31, 2019, certain properties were valued by professional external independent appraisers. These properties represent 37.1% of the fair value of investment properties as at December 31, 2019 (year ended December 31, 2018 - 25.4%). The remainder of the portfolio was valued by the REIT's internal valuation team. The properties that were externally appraised are selected by management to form a representative cross section of the REIT's portfolio based on size, geography and the availability of market data. In addition, external independent appraisals are often obtained for properties acquired or for mortgage financing purposes.

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3. Real estate assets (continued):

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

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

	Overall Capitalization Rates			Discount Rates			Terminal Capitalization Rates		
	Canada	United States	Total	Canada	United States	Total	Canada	United States	Total
December 31, 2019	5.84%	5.34%	5.69%	6.70%	6.38%	6.61%	6.08%	5.77%	5.99%
December 31, 2018	5.73%	5.39%	5.64%	6.48%	6.29%	6.43%	5.92%	5.72%	5.86%

Fair value sensitivity:

The REIT's investment properties are classified as level 3 under the fair value hierarchy, as the inputs in the valuations of these investment properties are not based on observable market data. The following table provides a sensitivity analysis for the weighted average overall capitalization rate applied as at December 31, 2019:

Capitalization Rate Sensitivity Increase (Decrease)	Overall Capitalization Rate	Fair Value of Investment Properties	Fair Value Variance	% Change
(0.75%)	4.94%	\$ 13,808,440	\$ 1,820,093	15.18%
(0.50%)	5.19%	\$ 13,143,294	\$ 1,154,947	9.63%
(0.25%)	5.44%	\$ 12,539,282	\$ 550,935	4.60%
December 31, 2019	5.69%	\$ 11,988,347	\$ -	0.00%
0.25%	5.94%	\$ 11,483,787	\$ (504,560)	(4.21%)
0.50%	6.19%	\$ 11,019,983	\$ (968,364)	(8.08%)
0.75%	6.44%	\$ 10,592,189	\$ (1,396,158)	(11.65%)

4. Equity accounted investments:

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

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

During the year ended December 31, 2018, the REIT: (i) acquired a 33.3% interest in Esterra Park Development Partners LP ("Esterra Park"), a joint venture, for \$3,799; and (ii) acquired a 30.9% interest in Shoreline, a joint venture, for \$5,973.

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4. Equity accounted investments (continued):

	Location	Principal activity	Ownership interest	
			December 31 2019	December 31 2018
Investments in joint ventures: ⁽¹⁾				
Three industrial properties (2018 - six)	United States	Own and operate investment property	50.5%	50.5%
Hercules Project	United States	Develop, own and operate investment property	31.7%	31.7%
The Pearl	United States	Develop, own and operate investment property	33.3%	33.3%
Esterra Park	United States	Develop, own and operate investment property	33.3%	33.3%
Shoreline	United States	Develop, own and operate investment property	31.2%	30.9%
Investments in associates: ⁽²⁾				
ECHO Realty LP ("ECHO")	United States	Own and operate investment properties	33.6%	33.6%
LIC Operator Co., L.P. ("Jackson Park")	United States	Own and operate investment property	50.0%	50.0%

(1) Where the REIT has joint control over the operations, each investment is structured as a separate vehicle and the REIT has rights to the net assets of the entities.

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

The following tables summarize the total amounts of the financial information of the equity accounted investments and reconciles the summarized financial information to the carrying amount of the REIT's interest in these arrangements. The REIT has determined that it is appropriate to aggregate each of the investments in joint ventures as the individual investments are not individually material:

Equity accounted investments in:	December 31, 2019				December 31, 2018			
	-----Associates-----		Joint Ventures	Total	-----Associates-----		Joint Ventures	Total
	ECHO	Jackson Park	(1)		ECHO	Jackson Park	(1)	
Investment properties ⁽²⁾	\$ 2,493,118	\$ 2,080,000	\$ 71,500	\$ 4,644,618	\$ 2,565,646	\$ -	\$ 119,340	\$ 2,684,986
Properties under development	67,898	-	385,070	452,968	37,046	2,151,304	176,493	2,364,843
Assets classified as held for sale	38,316	-	-	38,316	-	-	-	-
Other assets	60,753	12,471	459	73,683	41,586	34,319	538	76,443
Cash and cash equivalents	28,778	45,515	11,777	86,070	32,970	53,126	11,192	97,288
Debt	(1,049,882)	(1,281,120)	(83,606)	(2,414,608)	(1,120,213)	(758,215)	(56,907)	(1,935,335)
Deferred tax liability	-	-	-	-	-	-	(335)	(335)
Accounts payable and accrued liabilities	(66,168)	(37,364)	(39,593)	(143,125)	(61,130)	(62,347)	(14,679)	(138,156)
Lease liability ⁽²⁾	(129,538)	-	-	(129,538)	-	-	-	-
Non-controlling interest	(70,144)	-	-	(70,144)	(78,640)	-	-	(78,640)
Net assets	1,373,131	819,502	345,607	2,538,240	1,417,265	1,418,187	235,642	3,071,094
REIT's share of net assets	\$ 468,857	\$ 410,087	\$ 123,829	\$ 1,002,773	\$ 483,995	\$ 709,425	\$ 91,565	\$ 1,284,985

(1) The REIT's investments in joint ventures are comprised of: three industrial properties (2018 - six) and four residential properties under development.

(2) As a result of the adoption of IFRS 16 on January 1, 2019, equity accounted investees recognized a right-of-use asset and lease liability. As at December 31, 2019, the total fair value of investment properties, within equity accounted investments, net of the lease liability is \$4,515,080.

ECHO reports its financial position to the REIT one month in arrears due to time constraints on its reporting. Therefore, the above amounts include ECHO's financial information as at November 30, 2019 and November 30, 2018, respectively.

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4. Equity accounted investments (continued):

Net income (loss) from equity accounted investments in:	December 31, 2019				December 31, 2018			
	-----Associates-----		Joint Ventures		-----Associates-----		Joint Ventures	
	ECHO	Jackson Park	(1)	Total	ECHO	Jackson Park	(1)	Total
Rentals from investment properties	\$ 214,633	\$ 95,658	\$ 8,119	\$ 318,410	\$203,138	\$ 25,384	\$ 11,137	\$239,659
Property operating costs	(45,971)	(28,910)	(384)	(75,265)	(44,206)	(20,215)	(1,235)	(65,656)
Net income from equity accounted investments	1,930	-	-	1,930	1,208	-	-	1,208
Finance income	1,086	1,547	253	2,886	816	1,822	254	2,892
Finance cost - operations	(53,445)	(42,173)	(932)	(96,550)	(48,989)	(16,054)	(2,033)	(67,076)
Trust expenses	(9,961)	-	(139)	(10,100)	(8,200)	-	(277)	(8,477)
Fair value adjustment on financial instruments	(7,571)	(8,604)	-	(16,175)	3,635	4,029	-	7,664
Fair value adjustment on real estate assets	(22,556)	(18,601)	11,756	(29,401)	(13,982)	280,068	(3,599)	262,487
Gain (loss) on sale of real estate assets	(513)	-	(4,803)	(5,316)	868	-	(628)	240
Income taxes	(161)	(67)	65	(163)	(48)	(8)	(54)	(110)
Net income (loss)	77,471	(1,150)	13,935	90,256	94,240	275,026	3,565	372,831
Net income attributable to non-controlling interest	(3,489)	-	-	(3,489)	(4,559)	-	-	(4,559)
Net income (loss) attributable to owners	73,982	(1,150)	13,935	86,767	89,681	275,026	3,565	368,272
REIT's share of net income (loss) attributable to unitholders	\$ 24,853	\$ (575)	\$ 6,923	\$ 31,201	\$ 30,125	\$ 137,513	\$ 1,771	\$169,409

(1) The REIT's investments in joint ventures are comprised of: three industrial properties (2018 - six) and four residential properties under development. The REIT's share of net income from joint ventures was earned from its investment in three industrial properties (2018 - six).

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, 2018 to November 30, 2019 and December 1, 2017 to November 30, 2018, respectively.

5. Assets and liabilities classified as held for sale:

As at December 31, 2019, the REIT had two U.S. residential properties and a 50% interest in one industrial property (December 31, 2018 - one U.S. office property and a 50% interest in one industrial property) classified as held for sale.

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

	December 31 2019	December 31 2018
Assets		
Investment properties	\$ 133,905	\$ 110,940
Restricted cash	1,768	-
	\$ 135,673	\$ 110,940
Liabilities		
Mortgage payable	\$ 49,416	\$ -

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6. Other assets:

	<i>Note</i>	December 31 2019	December 31 2018
Mortgages receivable ⁽¹⁾		\$ 555,030	\$ 96,909
Prepaid expenses and sundry assets		49,691	25,861
Restricted cash		7,931	12,872
Accounts receivable		11,360	12,401
Derivative instruments	11	752	5,445
		\$ 624,764	\$ 153,488

⁽¹⁾ Mortgages receivable include \$227,332 classified as FVTPL and \$327,698 classified as amortized cost (December 31, 2018 - \$44,731 and \$52,178, respectively). There were no defaults or anticipated defaults by borrowers of mortgages receivable. No expected credit losses were recorded in the year ended December 31, 2019 (December 31, 2018 - nil). As at December 31, 2019, mortgages receivable bear interest at effective rates between 3.25% and 14.32% per annum (December 31, 2018 - between 3.25% and 9.00% per annum) with a weighted average effective rate of 7.06% per annum (December 31, 2018 - 6.49%), and mature between 2020 and 2029 (December 31, 2018 - mature between 2019 and 2026).

Future repayments of mortgages receivable are as follows:

	December 31 2019
Years ending December 31:	
2020	\$ 260,333
2021	229,310
2022	34,100
2023	-
2024	-
Thereafter	31,287
	\$ 555,030

7. Cash and cash equivalents:

Cash and cash equivalents at December 31, 2019 includes cash on hand of \$48,370 (December 31, 2018 - \$52,807) and bank term deposits of \$270 (December 31, 2018 - \$266) bearing interest at a rate of 1.61% (December 31, 2018 - 1.58%).

Included in cash and cash equivalents at December 31, 2019 are U.S. dollar denominated amounts of U.S. \$21,620 (December 31, 2018 - U.S. \$25,129). The Canadian equivalent of these amounts is \$28,106 (December 31, 2018 - \$34,175).

8. Debt:

The REIT's debt consists of the following items:

	<i>Note</i>	December 31 2019	December 31 2018
Mortgages payable	8(a)	\$ 3,630,858	\$ 4,150,459
Debentures payable	8(b)	1,257,731	1,613,040
Unsecured term loans	8(c)	692,229	450,629
Lines of credit	8(d)	795,042	331,944
		\$ 6,375,860	\$ 6,546,072

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8. Debt (continued):

(a) Mortgages payable:

The mortgages payable are secured by 118 real estate assets with an aggregate fair value of \$8,259,330, bear interest at fixed rates with a contractual weighted average rate of 4.08% (December 31, 2018 - 4.17%) per annum and mature between 2020 and 2032 (December 31, 2018 - maturing between 2019 and 2032). Included in mortgages payable at December 31, 2019 are U.S. dollar denominated mortgages of U.S. \$1,045,921 (December 31, 2018 - U.S. \$1,368,241). The Canadian equivalent of these amounts is \$1,359,697 (December 31, 2018 - \$1,860,808).

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 2019
Years ending December 31:	
2020	\$ 183,668
2021	931,928
2022	606,640
2023	446,043
2024	57,105
Thereafter	1,419,041
	3,644,425
Financing costs and mark-to-market adjustment arising on acquisitions	(13,567)
	\$ 3,630,858

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

	<i>Note</i>	December 31 2019	December 31 2018
Opening balance, beginning of year		\$ 4,150,459	\$ 3,958,631
Principal repayments:			
Scheduled amortization on mortgages		(123,651)	(129,145)
Mortgage repayments		(494,038)	(407,763)
New mortgages		224,631	619,788
Mortgage reclassified to liabilities held for sale	5	(49,416)	-
Effective interest rate accretion on mortgages		2,552	382
Change in foreign exchange		(79,679)	108,566
Closing balance, end of year		\$ 3,630,858	\$ 4,150,459

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8. Debt (continued):

(b) Debentures payable:

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

				December 31	December 31
				2019	2018
	Maturity	Contractual interest rate	Effective interest rate	Principal amount	Carrying value
Senior Debentures					
Series K Senior Debentures ⁽¹⁾	March 1, 2019	2.36%	(1)	\$ -	\$ 199,943
Series M Senior Debentures ⁽²⁾	July 23, 2019	3.35%	(2)	-	149,902
Series P Senior Debentures ⁽³⁾	February 13, 2020	3.67%	(3)	162,500	169,667
Series F Senior Debentures	March 2, 2020	4.45%	4.58%	175,000	174,954
Series L Senior Debentures	May 6, 2022	2.92%	3.11%	325,000	322,862
Series O Senior Debentures	January 23, 2023	3.42%	3.44%	250,000	249,065
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	348,019
		3.45%	3.55%	\$ 1,262,500	\$ 1,613,040

(1) Bore interest at a rate equal to 3-month Canadian Dealer Offered Rate plus 143 basis points. The REIT entered into an interest rate swap on the Series K senior debentures to fix the interest rate at 2.36% per annum (note 11). In March 2019, the REIT repaid all of its Series K senior debentures upon maturity for a cash payment of \$200,000.

(2) Bore interest at a rate equal to 3-month Canadian Dealer Offered Rate plus 123 basis points. The average interest rate for the year ended December 31, 2019 was 3.35%. In July 2019, the REIT repaid all of its Series M senior debentures upon maturity for a cash payment of \$150,000.

(3) Denominated as \$125,000 U.S. dollars and bears interest at a rate equal to 3-month London Interbank Offered Rate plus 79 basis points. The REIT entered into an interest rate swap on the Series P senior debentures to fix the interest rate at 3.67% per annum (note 11).

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

The Series F, L, N, O and P unsecured senior debentures (collectively, the "Senior Debentures") pay interest semi-annually or quarterly as noted below:

Senior Debentures	Interest Payment Dates
Series F	March 2 and September 2
Series L	May 6 and November 6
Series N	January 30 and July 30
Series O	January 23 and July 23
Series P	February 13, May 13, August 13 and November 13

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8. Debt (continued):

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

	December 31 2019	December 31 2018
Senior Debentures		
Carrying value, beginning of year	\$ 1,613,040	\$ 1,749,650
Redemption - Series M Senior Debentures	(1) (150,000)	-
Redemption - Series K Senior Debentures	(1) (200,000)	-
Redemption - Series E Senior Debentures	(1) -	(100,000)
Redemption - Series J Senior Debentures	(1) -	(157,500)
Redemption - Series G Senior Debentures	(1) -	(175,000)
Redemption - Series C Senior Debentures	(1) -	(125,000)
Issuance - Series O Senior Debentures	(2) -	248,525
Issuance - Series P Senior Debentures	(2) -	160,680
Change in foreign exchange	(7,500)	8,737
Accretion adjustment	2,191	2,948
Carrying value, end of year	1,257,731	1,613,040
Convertible Debentures		
Carrying value, beginning of year	-	103,140
Conversion - 2020 Convertible Debentures (HR.DB.D)	-	(70)
Redemption - 2020 Convertible Debentures (HR.DB.D)	(1) -	(99,582)
Gain on change in fair value	-	(3,488)
Carrying value, end of year	-	-
	\$ 1,257,731	\$ 1,613,040

(1) During the year ended December 31, 2019, the REIT redeemed debentures payable of \$350,000 (year ended December 31, 2018 - \$657,082).

(2) During the year ended December 31, 2019, the REIT issued debentures payable of nil (year ended December 31, 2018 - \$409,205).

(c) Unsecured term loans:

The REIT has the following unsecured term loans:

	Maturity Date	December 31 2019	December 31 2018
H&R REIT unsecured term loan #1 ⁽¹⁾	March 17, 2021	\$ 192,229	\$ 200,629
H&R REIT unsecured term loan #2 ⁽²⁾	March 7, 2024	250,000	-
H&R REIT unsecured term loan #3 ⁽³⁾	January 6, 2026	250,000	250,000
		\$ 692,229	\$ 450,629

(1) The total facility as at December 31, 2019 is \$200,000, plus a 3% allowance relating to the fluctuation of the foreign exchange rate, and can be drawn in either Canadian or U.S. dollars. The REIT entered into an interest rate swap to fix the interest rate at 2.56% per annum on U.S. \$130,000 of the U.S. dollar denominated borrowing of this facility. The swap matures on March 17, 2021 (note 11).

(2) The REIT entered into an interest rate swap to fix the interest rate at 3.33% per annum. The swap matures on March 7, 2026 (note 11).

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

Included in unsecured term loans at December 31, 2019, are U.S. denominated amounts of \$140,000 (December 31, 2018 - U.S. \$140,000). The Canadian equivalent of these amounts is \$182,000 (December 31, 2018 - \$190,400).

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8. Debt (continued):

(d) Lines of credit:

The REIT has the following lines of credit:

	Maturity Date	Total Facility	Amount Drawn	Outstanding Letters of Credit	Available Balance
Revolving unsecured operating lines of credit:					
H&R REIT revolving unsecured line of credit #1	September 20, 2022	\$ 150,000	\$ (146,100)	\$ -	\$ 3,900
H&R REIT revolving unsecured line of credit #2	January 31, 2023	200,000	(194,350)	-	5,650
H&R REIT revolving unsecured line of credit #3	September 20, 2023	350,000	(109,492)	(1,985)	238,523
H&R REIT revolving unsecured letter of credit facility		60,000	-	(34,791)	25,209
Sub-total		760,000	(449,942)	(36,776)	273,282
Revolving secured operating lines of credit⁽¹⁾:					
H&R REIT and CrestPSP revolving secured line of credit	April 30, 2020	62,500	(51,500)	(105)	10,895
Primaris revolving secured line of credit	December 31, 2021	300,000	(293,600)	-	6,400
Sub-total		362,500	(345,100)	(105)	17,295
December 31, 2019		\$ 1,122,500	\$ (795,042)	\$ (36,881)	\$ 290,577
December 31, 2018		\$ 1,126,014	\$ (331,944)	\$ (25,874)	\$ 768,196

⁽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 at December 31, 2019 are U.S. dollar denominated amounts of U.S. \$375,500 (December 31, 2018 - U.S. \$13,000). The Canadian equivalent of these amounts is \$488,150 (December 31, 2018 - \$17,680).

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

	December 31, 2019		December 31, 2018	
	Unsecured Term Loans	Lines of Credit	Unsecured Term Loans	Lines of Credit
Opening balance, beginning of year	\$ 450,629	\$ 331,944	\$ 186,629	\$ 495,567
Net advances (repayments)	250,000	463,878	250,000	(196,323)
Change in foreign exchange	(8,400)	(780)	14,000	32,700
Closing balance, end of year	\$ 692,229	\$ 795,042	\$ 450,629	\$ 331,944

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9. Exchangeable units:

Certain of the REIT's subsidiaries have in aggregate 15,316,239 (December 31, 2018 - 15,955,541) exchangeable units outstanding which are puttable instruments where, upon redemption, the REIT has a contractual obligation to issue Units. A subsidiary of the REIT also holds 433,174 (December 31, 2018 - 433,174) Units to mirror these exchangeable units. Therefore, when such exchangeable units are exchanged for Units, the number of outstanding Units will not increase. Holders of all exchangeable units are entitled to receive the economic equivalence of distributions on a per unit amount equal to a per Unit amount provided to holders of Units. These puttable instruments are classified as a liability under IFRS and are measured at fair value through profit or loss. Fair value is determined by using the quoted prices 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, 2019 was \$21.10 (December 31, 2018 - \$20.65) per Unit.

A summary of the carrying value of exchangeable units is as follows:

	December 31 2019	December 31 2018
Carrying value, beginning of year	\$ 329,482	\$ 341,321
Exchanged for Units	(14,448)	(500)
(Gain) loss on fair value of exchangeable units	8,139	(11,339)
Carrying value, end of year	\$ 323,173	\$ 329,482

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

10. Accounts payable and accrued liabilities:

	<i>Note</i>	December 31 2019	December 31 2018
Current:			
Other accounts payable and accrued liabilities		\$ 146,660	\$ 148,106
Mortgage interest payable		9,147	9,885
Prepaid rent		41,564	24,030
Debenture interest payable		13,460	14,869
Derivative instruments	11	9,352	2,701
Unit-based compensation payable:			
Options	12(b)	12,016	1,834
Incentive units	12(b)	4,576	1,688
Non-current:			
Lease liability ⁽¹⁾		32,002	-
Security deposits		5,890	6,051
Unit-based compensation payable:			
Options	12(b)	-	9,045
Incentive units	12(b)	6,928	4,932
		\$ 281,595	\$ 223,141

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

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11. Derivative instruments:

		Fair value asset (liability)*		Net gain (loss) on derivative instruments	
		December 31	December 31	December 31	December 31
		2019	2018	2019	2018
Debenture interest rate swap	(1)	\$ -	\$ 592	\$ (592)	\$ (1,639)
Debenture interest rate swap	(2)	(404)	(331)	(73)	(331)
Debenture interest rate swap	(3)	-	-	-	(177)
Term loan interest rate swap	(4)	752	4,853	(4,101)	887
Term loan interest rate swap	(5)	(2,777)	-	(2,777)	-
Term loan interest rate swap	(6)	(6,171)	(2,370)	(3,801)	(2,370)
		\$ (8,600)	\$ 2,744	\$ (11,344)	\$ (3,630)

The REIT entered into interest rate swaps as follows:

- (1) To fix the interest rate at 2.36% per annum for the Series K senior debentures (settled when these debentures matured on March 1, 2019).
- (2) To fix the interest rate at 3.67% per annum for the Series P senior debentures. The swap matures on February 13, 2020.
- (3) To fix the interest rate at 2.04% per annum for the Series J senior debentures (settled when these debentures matured on February 9, 2018).
- (4) To fix the interest rate at 2.56% per annum on U.S. \$130,000 term loan. The swap matures on March 17, 2021.
- (5) To fix the interest rate at 3.33% per annum on \$250,000 term loan. The swap matures on March 7, 2026.
- (6) To fix the interest rate at 3.91% per annum on \$250,000 term loan. The swap matures on January 6, 2026.

* Derivative instruments in asset and liability positions are not presented on a net basis. Derivative instruments in an asset position are recorded in other assets (note 6) and derivative instruments in a liability position are recorded in accounts payable and accrued liabilities (note 10).

12. Unitholders' equity:

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

(a) Description of Units:

Each Unit and special voting unit carries a single vote at any meeting of unitholders. Holders of special voting units do not have any additional rights than those of holders of Units. The aggregate number of Units which the REIT may issue is unlimited and the aggregate number of special voting units which the REIT may issue is 9,500,000. Units carry the right to participate pro rata in any distributions. As at December 31, 2019, 9,500,000 (December 31, 2018 - 9,500,000) special voting units are issued and outstanding.

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

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

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

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

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12. Unitholders' equity (continued):

The following is a summary of the issued and outstanding number of Units during the respective years:

	December 31 2019	December 31 2018
Balance, beginning of year	285,677,811	291,320,218
Issuance of Units:		
Issued under the Dividend Reinvestment Plan and Unit Purchase Plan ("DRIP") ⁽¹⁾	-	933,594
Options exercised	368,306	1,271
Incentive Units settled in Units	4,817	5,281
Exchangeable units exchanged into Units	639,302	23,889
Conversion of convertible debentures	-	2,978
Units repurchased and cancelled	-	(6,609,420)
Balance, end of year	286,690,236	285,677,811

⁽¹⁾ In February 2018, the Trusts announced the suspension of their DRIP and Unit Purchase Plan until further notice. Commencing with the March 2018 distribution, unitholders who elected to participate in the DRIP received the full cash distributions on their Units. Following the Reorganization, the REIT's DRIP and Unit Purchase Plan remain suspended until further notice and unitholders who elected to participate in the DRIP will receive the full cash distributions on their Units.

The weighted average number of basic Units for the year ended December 31, 2019 is 286,057,254 (December 31, 2018 - 287,060,425).

(b) Unit-based compensation:

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

(i) Unit option plan:

As at December 31, 2019, a maximum of 17,723,110 (December 31, 2018 - 18,339,047) options to purchase Units were authorized to be issued; 10,647,642 (December 31, 2018 - 11,263,579) options have been granted and are outstanding and 7,075,468 (December 31, 2018 - 7,075,468) options have not yet been granted. The exercise price of each option approximates the quoted price of the Units on the date of grant. The options vest at 33.3% per year from the grant date, will be fully vested after three years, and expire ten years after the date of the grant.

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

	December 31, 2019		December 31, 2018	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	11,263,579	\$ 20.51	11,310,383	\$ 20.51
Granted	-	-	-	-
Exercised	(615,937)	(19.38)	(21,210)	(18.98)
Expired	-	-	(25,594)	(20.71)
Outstanding, end of year	10,647,642	\$ 20.57	11,263,579	\$ 20.51
Vested, end of year	10,647,642	\$ 20.57	8,867,636	\$ 20.93

The outstanding and vested options at December 31, 2019 are exercisable at varying prices ranging from \$18.98 to \$23.18 (December 31, 2018 - \$15.42 to \$23.18) with a weighted average remaining life of 4.8 years (December 31, 2018 - outstanding options 5.8 years, vested options 5.4 years).

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12. Unitholders' equity (continued):

(ii) Incentive unit plan:

As at December 31, 2019, a maximum of 5,000,000 (December 31, 2018 - 5,000,000) incentive units exchangeable into Units were authorized to be issued. The REIT has granted 1,018,896 (December 31, 2018 - 561,242) incentive units which remain outstanding, 11,452 (December 31, 2018 - 6,635) incentive units have been settled for Units and 3,969,652 (December 31, 2018 - 4,432,123) incentive units have not yet been granted.

Incentive units are recognized based on the grant date fair value. 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, 2019, 64.61% of the restricted units granted vest on the third anniversary and 35.39% of the restricted units granted vest on the fifth anniversary of their respective grant dates and are subject to forfeiture until the recipients of the awards have held office with or provided services to the REIT for a specified period of time. The restricted units are, subject to the holder's election, cash settled upon vesting.

The REIT grants performance units under the incentive unit plan with a three-year performance period for certain senior executives. The performance units are and will be subject to both internal and external measures consisting of both absolute and relative performance over a three-year period and, subject to the holder's election, cash settled upon vesting.

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

	December 31 2019	December 31 2018
	Incentive units	Incentive units
Outstanding, beginning of year	561,242	431,533
Granted	556,961	284,023
Settled	(85,521)	(147,737)
Expired	(13,786)	(6,577)
Outstanding, end of year	1,018,896	561,242

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12. Unitholders' equity (continued):

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

	December 31 2019	December 31 2018
Options	\$ 12,016	\$ 10,879
Incentive units	11,504	6,620
	\$ 23,520	\$ 17,499

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

	2019	2018
Options	\$ 3,319	\$ (1,642)
Incentive units	6,825	4,055
	\$ 10,144	\$ 2,413

(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 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, 2019, the REIT declared distributions per Unit of \$1.38 (December 31, 2018 - \$1.38).

The details of the distributions are as follows:

	2019	2018
Cash distributions to unitholders	\$ 394,181	\$ 378,936
Unit distributions (issued under the DRIP) ⁽¹⁾	-	16,632
	\$ 394,181	\$ 395,568

⁽¹⁾ In February 2018, the Trusts announced the suspension of their DRIP and Unit Purchase Plan until further notice. Commencing with the March 2018 distribution, unitholders who elected to participate in the DRIP received the full cash distributions on their Units. Following the Reorganization, the REIT's DRIP and Unit Purchase Plan remain suspended until further notice and unitholders who elected to participate in the DRIP will receive the full cash distributions on their Units.

(d) Normal course issuer bid:

On December 10, 2019, the REIT received approval from the TSX for the renewal of its normal course issuer bid ("NCIB"), allowing the REIT to purchase for cancellation up to a maximum of 15,000,000 Units on the open market until the earlier of December 16, 2020 or the date on which the REIT purchased the maximum number of Units permitted under the NCIB. During the year ended December 31, 2019, the REIT did not purchase and cancel any Units. During the year ended December 31, 2018, under a previous NCIB, the Trusts purchased and cancelled 6,609,420 Units at a weighted average price of \$20.62 per Unit, for a total cost of \$136,272.

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13. Accumulated other comprehensive income:

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

	<i>Note</i>	December 31, 2019		December 31 2018
		Cash flow hedges	Foreign operations	Total
Opening balance, beginning of year		\$ (252)	\$ 372,076	\$ 371,824
Transfer of realized loss on cash flow hedges to net income		29	-	29
Unrealized gain (loss) on translation of U.S. denominated foreign operations		-	(108,675)	(108,675)
Net gain (loss) on hedges of net investments in foreign operations	<i>8</i>	-	(16,680)	(16,680)
		29	(125,355)	(125,326)
Closing balance, end of year		\$ (223)	\$ 246,721	\$ 246,498
				\$ 371,824

14. Rentals from investment properties:

	2019	2018
Rental income	\$ 922,108	\$ 962,429
Revenue from services	222,535	220,230
Straight-lining of contractual rent	7,161	(4,113)
Rent amortization of tenant inducements	(2,354)	(1,988)
	\$ 1,149,450	\$ 1,176,558

Operating Leases:

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

	2019	2018
Less than 1 year	\$ 666,425	\$ 686,133
Between 1 and 5 years	2,116,371	2,150,004
More than 5 years	3,477,225	3,182,837
	\$ 6,260,021	\$ 6,018,974

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15. Finance costs:

	2019	2018
Finance cost - operations		
Contractual interest on mortgages payable	\$ 164,867	\$ 165,855
Contractual interest on debentures payable	47,312	61,213
Bank interest and charges	35,793	20,709
Effective interest rate accretion	4,301	3,666
Exchangeable unit distributions	21,872	22,050
	274,145	273,493
Capitalized interest ⁽¹⁾	(17,649)	(6,406)
	256,496	267,087
Finance income	(15,036)	(8,638)
Fair value adjustment on financial instruments	19,483	(11,197)
	\$ 260,943	\$ 247,252

⁽¹⁾ The weighted average rate of borrowings for the capitalized interest is 3.90% (December 31, 2018 - 3.91%).

16. Supplemental cash flow information:

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

	2019	2018
Accrued rents receivable	\$ (12,700)	\$ (5,077)
Prepaid expenses and sundry assets	(25,000)	7,693
Accounts receivable	1,041	3,338
Accounts payable and accrued liabilities	17,296	(3,615)
	\$ (19,363)	\$ 2,339

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

	<i>Note</i>	2019	2018
Non-cash items:			
Non-cash distributions to unitholders in the form of DRIP Units	<i>12(c)</i>	\$ -	\$ 16,632
Non-cash conversion of convertible debentures	<i>8(b)</i>	-	70
Non-cash distributions to exchangeable unitholders in the form of DRIP Units		-	2,033
Non-cash adjustment to proceeds from issuance of Units		2,291	140
Mortgages receivable from the sale of investment properties		256,000	34,100
Mortgages receivable used for the acquisition of property under development		-	(164,878)
Exchangeable units exchanged for Units	<i>9</i>	14,448	500
Other items:			
Increase in accounts payable on lease liability and right-of-use asset	<i>3, 10</i>	32,002	-
Decrease in accounts payable on redevelopment		-	9
Decrease in accounts payable included in finance cost - operations		3,857	362
Capitalized interest on redevelopment	<i>15</i>	(5,349)	(2,780)
Capitalized interest on properties under development	<i>15</i>	(12,300)	(3,626)

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17. Capital risk management:

The REIT's primary objectives when managing capital are:

- (a) to maximize Unit value through ongoing active management of the REIT's assets, acquisition of additional properties and the development and construction of projects; and
- (b) to provide unitholders with stable and growing cash distributions generated by the revenue it derives from a diversified portfolio of income producing real estate assets.

The REIT considers its capital to be:

	December 31 2019	December 31 2018
Debt	\$ 6,375,860	\$ 6,546,072
Exchangeable units	323,173	329,482
Unitholders' equity	7,043,917	7,200,100
	\$ 13,742,950	\$ 14,075,654

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, 2019, this ratio was 44.4% (December 31, 2018 - 44.6%). Management uses this ratio as a key indicator in managing the REIT's capital.

In addition to the above key ratio, the REIT's debt has various covenants calculated as defined within these agreements. The REIT monitors these covenants and was in compliance as at December 31, 2019 and December 31, 2018.

18. Risk management:

(a) Credit risk:

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

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

In addition, management ensures that no tenant or related group of tenants, other than investment grade tenants, account for a significant portion of the REIT's cash flow. The REIT has three tenants which individually account for more than 5% of the rentals from investment properties of the REIT: Ovintiv Inc., Bell Canada and Hess Corporation. Each of these companies have a public debt rating that is rated with at least a BBB- Stable rating by a recognized rating agency.

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

	Note	December 31 2019	December 31 2018
Mortgages receivable	6	\$ 555,030	\$ 96,909
Accounts receivable	6	11,360	12,401
		\$ 566,390	\$ 109,310

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18. Risk management (continued):

(b) *Liquidity risk:*

The REIT is subject to liquidity risk whereby the REIT may not be able to refinance or pay its debt obligations when they become due.

The REIT manages liquidity risk by:

- Ensuring appropriate unsecured term loans and lines of credit available are available. As at December 31, 2019 the consolidated amount available under its lines of credit was \$290,577 (note 8(d));
- Maintaining a large unencumbered asset pool. As at December 31, 2019, there were 90 unencumbered properties with a fair value of \$3,959,871; and
- Structuring its financing so as to stagger the maturities of its debt, thereby minimizing exposure to liquidity risk in any one year (note 8).

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

The REIT's obligations are as follows:

	<i>Note</i>	2020	Thereafter	Total
Debt ⁽¹⁾	8	\$ 572,668	\$ 5,821,528	\$ 6,394,196
Accounts payable and accrued liabilities ⁽²⁾	10	224,759	44,820	269,579
		\$ 797,427	\$ 5,866,348	\$ 6,663,775

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

⁽²⁾ Excludes options payable.

(c) *Market risk:*

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

(i) *Currency risk:*

Foreign exchange risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. A portion of the REIT's properties are located in the United States, resulting in the REIT being subject to foreign currency fluctuations which may impact its financial position and results. In order to mitigate the risk, the REIT's debt on these properties is also denominated in U.S. dollars to act as a natural hedge. Additionally, the REIT has designated U.S. denominated debt of \$640,500 (2018 - U.S. \$278,000) consisting of the Series P Senior Debentures, U.S. unsecured term loans and U.S. lines of credit (2018 - Series P Senior Debentures, U.S. unsecured term loans and U.S. lines of credit) as a hedge of its net investment in foreign operations of approximately U.S. \$1,621,000 (2018 - U.S. \$1,492,000).

A \$0.10 weakening of the U.S. dollar against the average Canadian dollar exchange rate of \$1.33 for the year ended December 31, 2019 (December 31, 2018 - \$1.30) as well as the Canadian dollar exchange rate as at December 31, 2019 of \$1.30 (December 31, 2018 - \$1.36) would have decreased other comprehensive income (loss) by approximately \$226,000 (December 31, 2018 - \$177,000) and decreased net income by approximately \$18,500 (December 31, 2018 - \$14,600). This analysis assumes that all other variables, in particular interest rates, remain constant (a \$0.10 strengthening of the U.S. dollar against the average Canadian dollar would have had the equal but opposite effect).

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18. Risk management (continued):

(ii) *Interest rate risk:*

The REIT is exposed to interest rate risk on its borrowings. It minimizes this risk by obtaining long-term fixed interest rate debt. At December 31, 2019, the percentage of fixed rate debt to total debt was 87.3% (December 31, 2018 - 91.6%). 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, 2019, lines of credit of \$795,042 and an unsecured term loan of \$23,229 are subject to variable interest rates. An increase in interest rates of 100 basis points for the year ended December 31, 2019 would have decreased net income by approximately \$8,200 (December 31, 2018 - \$3,600). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

The floating rate Series P senior debentures are subject to variable rates, however the REIT entered into an interest rate swap to reduce exposure to fluctuations in interest rates.

As at December 31, 2019, there were no mortgages payable subject to variable interest rates.

(d) *Fair value measurement:*

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

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

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

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

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

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

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18. Risk management (continued):

December 31, 2019	Note	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets measured at fair value						
Investment properties	3	\$ -	\$ -	\$ 11,988,347	\$ 11,988,347	\$ 11,988,347
Properties under development	3	-	-	683,145	683,145	683,145
Assets classified as held for sale	5	-	-	135,673	135,673	135,673
Derivative instruments	6	-	752	-	752	752
Mortgages receivable	6	-	-	227,332	227,332	227,332
Assets for which fair values are disclosed						
Mortgages receivable	6	-	327,761	-	327,761	327,698
		-	328,513	13,034,497	13,363,010	13,362,947
Liabilities measured at fair value						
Exchangeable units	9	(323,173)	-	-	(323,173)	(323,173)
Derivative instruments	10	-	(9,352)	-	(9,352)	(9,352)
Liabilities classified as held for sale	5	-	-	(49,416)	(49,416)	(49,416)
Liabilities for which fair values are disclosed						
Mortgages payable	8(a)	-	(3,725,176)	-	(3,725,176)	(3,630,858)
Debentures payable	8(b)	-	(1,291,301)	-	(1,291,301)	(1,257,731)
Unsecured term loans	8(c)	-	(693,924)	-	(693,924)	(692,229)
Lines of credit	8(d)	-	(796,994)	-	(796,994)	(795,042)
		(323,173)	(6,516,747)	(49,416)	(6,889,336)	(6,757,801)
		\$ (323,173)	\$ (6,188,234)	\$ 12,985,081	\$ 6,473,674	\$ 6,605,146

December 31, 2018	Note	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets measured at fair value						
Investment properties	3	\$ -	\$ -	\$ 12,683,709	\$ 12,683,709	\$ 12,683,709
Properties under development	3	-	-	404,814	404,814	404,814
Assets classified as held for sale	5	-	-	110,940	110,940	110,940
Derivative instruments	6	-	5,445	-	5,445	5,445
Mortgage receivable	6	-	-	44,731	44,731	44,731
Assets for which fair values are disclosed						
Mortgages receivable	6	-	52,306	-	52,306	52,178
		-	57,751	13,244,194	13,301,945	13,301,817
Liabilities measured at fair value						
Exchangeable units	9	(329,482)	-	-	(329,482)	(329,482)
Derivative instruments	10	-	(2,701)	-	(2,701)	(2,701)
Liabilities classified as held for sale	5	-	-	-	-	-
Liabilities for which fair values are disclosed						
Mortgages payable	8(a)	-	(4,226,404)	-	(4,226,404)	(4,150,459)
Debentures payable	8(b)	-	(1,611,734)	-	(1,611,734)	(1,613,040)
Unsecured term loans	8(c)	-	(452,143)	-	(452,143)	(450,629)
Lines of credit	8(d)	-	(332,739)	-	(332,739)	(331,944)
		(329,482)	(6,625,721)	-	(6,955,203)	(6,878,255)
		\$ (329,482)	\$ (6,567,970)	\$ 13,244,194	\$ 6,346,742	\$ 6,423,562

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19. Compensation of key management personnel:

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

	2019	2018
Salaries and short-term employee benefits	\$ 6,696	\$ 6,259
Unit-based compensation	8,260	1,888
	\$ 14,956	\$ 8,147

20. Segmented disclosures:

The REIT has four reportable operating segments (Office, Retail, Industrial and Residential), in two geographical locations (Canada and the United States). Effective January 1, 2019, the REIT has combined its previous three retail segments (Primaris, H&R Retail and ECHO) into one segment known as Retail. The comparative period figures have been re-stated to reflect this change in operating segments. The operating segments derive their revenue primarily from rental income from leases. The segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, determined to be the Chief Executive Officer ("CEO") of the REIT. The CEO measures and evaluates the performance of the REIT based on property operating income on a proportionately consolidated basis for the REIT's equity accounted investments. The accounting policies of the segments presented here are consistent with the REIT's accounting policies as described in note 2.

(i) Operating segments:

Real estate assets by reportable segment as at December 31, 2019 and December 31, 2018 are as follows:

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

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20. Segmented disclosures (continued):

December 31, 2018	Office	Retail	Industrial	Residential	Total
Number of investment properties	35	319	90	22	466
Real estate assets:					
Investment properties	\$ 6,752,450	\$ 4,173,686	\$ 1,043,220	\$ 1,755,592	\$ 13,724,948
Properties under development	-	12,444	85,567	1,451,821	1,549,832
	6,752,450	4,186,130	1,128,787	3,207,413	15,274,780
Less: assets classified as held for sale	(93,840)	-	(17,100)	-	(110,940)
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	-	(882,477)	(60,267)	(1,132,573)	(2,075,317)
	\$ 6,658,610	\$ 3,303,653	\$ 1,051,420	\$ 2,074,840	\$ 13,088,523

Property operating income by reportable segment for the years ended December 31, 2019 and December 31, 2018 is as follows:

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

	Office	Retail	Industrial	Residential	Sub-total	Less: Equity Accounted Investments	December 31 2018
Rentals from investment properties	\$ 598,914	\$ 438,939	\$ 87,496	\$ 137,742	\$ 1,263,091	\$ (86,533)	\$ 1,176,558
Property operating costs	(209,058)	(160,797)	(24,612)	(73,753)	(468,220)	25,594	(442,626)
Property operating income	\$ 389,856	\$ 278,142	\$ 62,884	\$ 63,989	\$ 794,871	\$ (60,939)	\$ 733,932

(ii) Geographical locations:

The REIT operates in Canada and the United States.

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

	December 31 2019	December 31 2018
Real estate assets:		
Canada	\$ 8,546,186	\$ 9,186,352
United States	6,340,141	6,088,428
	14,886,327	15,274,780
Less: assets classified as held for sale	(133,905)	(110,940)
Less: REIT's proportionate share of real estate assets and assets classified as held for sale relating to equity accounted investments	(2,080,930)	(2,075,317)
	\$ 12,671,492	\$ 13,088,523

H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

20. Segmented disclosures (continued):

	2019	2018
Rentals from investment properties:		
Canada	\$ 845,371	\$ 875,418
United States	428,112	387,673
	1,273,483	1,263,091
Less: REIT's proportionate share of rentals relating to equity accounted investments	(124,033)	(86,533)
	\$ 1,149,450	\$ 1,176,558

21. Income tax expense:

	2019	2018
Income tax computed at the Canadian statutory rate of nil applicable to the REIT for 2019 and 2018	\$ -	\$ -
Current U.S. income taxes	113	760
Deferred income taxes applicable to U.S. Holdco	35,267	39,457
Income tax expense in the determination of net income	\$ 35,380	\$ 40,217

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

The REIT has certain subsidiaries in the United States that are subject to tax on their taxable income at a combined federal and state tax rate of approximately 23.6% (2018 - 24.3%). 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 2019	December 31 2018
Deferred tax assets:		
Net operating losses	\$ 24,947	\$ 22,551
Accounts payable and accrued liabilities	880	585
Other assets	980	1,463
	26,807	24,599
Deferred tax liabilities:		
Investment properties	309,730	284,006
Equity accounted investments	126,458	132,807
	436,188	416,813
Deferred tax liability	\$ (409,381)	\$ (392,214)

The change in deferred tax liability is the result of a deferred income tax expense of \$35,267 (2018 - \$39,457) and foreign currency translation of (\$18,100) (2018 - \$27,626) recognized in other comprehensive income.

H&R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

21. Income tax expense (continued):

As at December 31, 2019, U.S. Holdco had accumulated net operating losses available for carryforward for U.S. income tax purposes of \$105,744 (December 31, 2018 - \$92,805), the benefit of which has been recognized and deferred interest deductions of \$192,203 (December 31, 2018 - \$200,324), the benefit of which has not been recognized. Certain of the net operating losses will expire between 2031 and 2032. Net operating losses arising after December 31, 2017 do not generally expire under current tax legislation. The deductible temporary differences do not generally expire under current tax legislation.

22. Commitments and contingencies:

- (a) In the normal course of operations, the REIT has issued letters of credit in connection with developments, financings, operations and acquisitions. As at December 31, 2019, the REIT has outstanding letters of credit totalling \$36,881 (December 31, 2018 - \$25,874), including \$16,575 (December 31, 2018 - \$17,340) which has been pledged as security for certain mortgages payable. The letters of credit are secured by certain investment properties.
- (b) The REIT provides guarantees on behalf of third parties, including co-owners. As at December 31, 2019, the REIT issued guarantees amounting to \$199,009 (December 31, 2018 - \$263,853), which expire between 2021 and 2027 (December 31, 2018 - expire between 2019 and 2029), relating to the co-owner's share of mortgage liability.

The REIT continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties, and will remain liable until such debts are extinguished or the lenders agree to release the REIT's guarantees. At December 31, 2019, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is \$41,259 (December 31, 2018 - \$43,963) which expires in 2020 (December 31, 2018 - expires in 2020). There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in these consolidated financial statements.

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

- (c) The REIT is obligated, under certain contract terms, to construct and develop investment properties.
- (d) The REIT is involved in litigation and claims in relation to the investment properties that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements.

23. Subsidiaries:

Name of Entity	Place of Business	Ownership interest	
		December 31 2019	December 31 2018
Bow Centre Street Limited Partnership	Canada	100%	100%
H&R Portfolio Limited Partnership	Canada	100%	100%
H&R REIT Management Services Limited Partnership	Canada	100%	100%
H&R REIT (U.S.) Holdings Inc.	United States	100%	100%
Primaris Management Inc.	Canada	100%	100%
PRR Trust	Canada	100%	100%

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Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

24. Subsequent events:

- (a) In January 2020, the REIT sold two U.S. residential properties which were classified as held for sale as at December 31, 2019, for gross proceeds of U.S. \$89,850.
- (b) In January 2020, the REIT received \$256,000 for the repayment of a mortgage receivable.

Corporate Information

H&R REIT Board of Trustees

Thomas J. Hofstedter ⁽¹⁾, President and Chief Executive Officer, H&R Real Estate Investment Trust
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Blair Kundell, Vice-President, Operations (H&R REIT)
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Schuyler Levine, Vice-President, Taxation (H&R REIT)

(1) Investment Committee

(2) Audit Committee

(3) Compensation, Governance and Nominating Committee

Auditors: KPMG LLP

Legal Counsel: Blake, Cassels & Graydon LLP

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

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

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

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



H&R Real Estate Investment Trust



Modera Westshore, Tampa



Dufferin Mall, Toronto



Corus Quay, Toronto