H&R REIT

FINANCIAL REPORT | Q3 2023

145 Wellington Street
Toronto, ON

ABOUT H&R REIT

H&R REIT is one of Canada's largest real estate investment trusts with total assets of approximately $11.1 billion as at September 30, 2023. H&R REIT has ownership interests in a North American portfolio comprised of high-quality residential, industrial, office and retail properties comprising over 27.1 million square feet. H&R's strategy is to create a simplified, growth-oriented business focused on residential and industrial properties in order to create sustainable long term value for unitholders. H&R plans to sell its office and retail properties as market conditions permit. H&R's target is to be a leading owner, operator and developer of residential and industrial properties, creating value through redevelopment and greenfield development in prime locations within Toronto, Montreal, Vancouver, and high growth U.S. sun belt and gateway cities.

ABOUT THE COVER

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

ABOUT FORWARD-LOOKING STATEMENTS DISCLAIMER:

This document includes statements that are forward-looking because they are based on management's expectations about the future –they are not historical facts. Forward-looking statements include statements regarding H&R REIT's future plans, including the REIT's transformational strategic repositioning plan, including the objectives thereof, advancing rezoning of existing properties, the continued recycling of non-core office and retail properties and the exit over time from office retail, H&R REIT's positioning for 2023, and other statements. Forward-looking statements generally can be identified by words such as "outlook", "Objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans", "project", "budget", or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect H&R REIT's current beliefs and are based on information currently available to management. For more information and a caution about using forward-looking information, see Section I, "Forward Looking Disclaimer" in the Management's Discussion and Analysis for the period ended September 30, 2023.

NOVEMBER 14, 2023

SUMMARY REPORT TO UNITHOLDERS
THIRD QUARTER 2023

“H&R's property performance remained strong across all our property classes with Same-Property net operating income on a cash basis growth of 12.6%," said Tom Hofstedter, Executive Chair and Chief Executive Officer. "Our capital structure continues to be conservative with low leverage and a low payout ratio. Given the line of sight we have into our current disposition pipeline we remain confident in our ability to achieve our disposition target of $600 million, sold or under contract, of non-core assets this year of which approximately $432 million has been sold to date.”

TOM HOFSTEDTER
Executive Chairman & CEO

HIGHLIGHTS:

- Net operating income increased by 0.7% compared to Q3 2022. Property dispositions in the last 12 months totaled $443.0 million.

- Same-Property net operating income (cash basis)[1] increased by 12.6% compared to Q3 2022 driven by healthy gains across all our operating segments:

• Residential	+19.5%	Driven by strong rent growth and the strengthening of the U.S. dollar
• Industrial	+11.1%	Driven by strong rent growth and higher occupancy
• Office	+9.9%	Driven by lease termination payments, bad debt recovery and the strengthening of the U.S. dollar
• Retail	+8.8%	Driven by increase in occupancy at River Landing Miami and the strengthening of the U.S. dollar

- Funds From Operations ("FFO") per Unit[2] grew 39.1% to $0.42 per Unit compared to $0.30 per Unit for Q3 2022. The REIT distributed 35.7%[2] of FFO to Unitholders.;

- Cash distributions per unit increased by 9.5% compared to Q3 2022;

- ($112.8) million fair value adjustment on real estate assets, driven by capitalization rate expansion. The following weighted average capitalization rates were used to value the REIT's investment properties at the REIT's proportionate share[1]:

	September 30, 2023
• Residential (sun belt)	4.75%
• Residential (other)	4.08%
• Industrial	5.28%
• Office (general)[3]	7.57%
• Office (rezoning)[3]	5.16%
• Retail	6.47%

- Office occupancy at September 30, 2023 was 98.0% and overall portfolio occupancy was 97.0%.;
- Unitholders' equity per Unit was $20.62 and NAV per Unit[2]) was $21.49 at September 30, 2023;
- Liquidity was in excess of $1 billion at September 30, 2023.

(1) These are non-generally accepted accounting principles ("GAAP") measures. Refer to the "Non-GAAP Measures" section of this news release.
(2) These are non-GAAP ratios. Refer to the "Non-GAAP Measures" section of this news release.
(3) Office (general) includes 14 properties expected to be sold as part of H&R's plan to sell office properties. Office (rezoning) includes 8 Canadian properties designated for future intensification.

FINANCIAL HIGHLIGHTS

	September 30	December 31
	2023	2022
Total assets (in thousands)	**$11,064,935**	$11,412,603
Debt to total assets per the REIT's Financial Statements(1)	**34.1%**	34..4%
Debt to total assets at the REIT's proportionate share(1)(2)	**43.9%**	44.0%
Debt to Adjusted EBITDA at the REIT's proportionate share(1)(2)(3)	**8.7**	9.6
Unitholders' equity (in thousands)	**5,400,145**	5,487,287
Units outstanding (in thousands)	**261,868**	265,885
Exchangeable units outstanding (in thousands)	**17,974**	17,974
Unitholders' equity per Unit	**$20.62**	$20.64
NAV per Unit(2)	**$21.49**	$21.80

	3 months ended September 30		*9 months ended September 30*	
	2023	2022	**2023**	2022
Rentals from investment properties (in millions)	**$210.4**	$213.7	**$641.2**	$617.8
Net operating income (in millions)	**$149.4**	$148.4	**$399.2**	$386.8
Same-Property net operating income (cash basis) (in millions)(3)	**$129.7**	$115.2	**$382.6**	$341.4
Net income from equity accounted investments (in millions)	**($11.0)**	($60.1)	**$0.1**	($6.3)
Fair value adjustment on real estate assets (in millions)	**($112.8)**	($235.2)	**($288.5)**	$770.6
Net income (in millions)	**$37.6**	($121.5)	**$73.0**	$961.0
Funds from operations ("FFO") (in millions)(3)	**$117.7**	$85.9	**$289.7**	$253.3
Adjusted funds from operations (“AFFO”) (in millions)(3)	**$101.2**	$72.7	**$244.5**	$224.9
Weighted average number of Units and exchangeable units for FFO (in thousands)	**280,205**	284,734	**282,480**	293,115
FFO per basic Unit(2)	**$0.420**	$0.302	**$1.026**	$0.864
AFFO per basic Unit(2)	**$0.361**	$0.255	**$0.866**	$0.767
Cash Distributions per Unit	**$0.150**	$0.137	**$0.450**	$0.402
Payout ratio as a % of FFO(2)	**35.7%**	45.4%	**43.9%**	46.5%
Payout ratio as a % of AFFO(2)	**41.6%**	53.7%	**52.0%**	52.4%

(1) Debt includes mortgages payable, debentures payable, unsecured term loans, lines of credit and liabilities classified as held for sale.
(2) These are non-GAAP ratios. Refer to the “Non-GAAP Measures” section in this news release.
(3) Adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) is calculated by taking the sum of net operating income (excluding straight-lining of contractual rent, IFRIC 21, as well as the Bow and 100 Wynford non-cash rental adjustments) and finance income and subtracting trust expenses (excluding the fair value adjustment to unit-based compensation) for the last 12 months.
(4) These are non-GAAP measures. Refer to the “Non-GAAP Measures” section in this news release.

Included in net income, FFO and AFFO for the three and nine months ended September 30, 2023 is $30.6 million (U.S. $22.6 million) related to the proceeds on disposal of a purchase option. H&R had a mortgage receivable of approximately $37.2 million (U.S $27.6 million) which was repaid in August 2023. In addition, H&R sold its option to purchase the land. The combined proceeds from the mortgage receivable and the sale of the option amounted to $67.8 million (U.S. $50.2 million). As a result, H&R recorded $30.6 million (U.S. $22.6 million) as proceeds on disposal of purchase option.

SUMMARY OF SIGNIFICANT Q3 2023 ACTIVITY

2023 Net Operating Income Highlights:

	3 months ended September 30			9 months ended September 30		
(in thousands of Canadian dollars)	**2023**	2022	% Change	**2023**	2022	% Change
Operating Segment:						
Same-Property net operating income (cash basis) - Residential[1]	**$38,836**	$32,492	19.5%	**$120,295**	$99,204	21.3%
Same-Property net operating income (cash basis) - Industrial[1]	**17,408**	15,663	11.1%	**51,936**	45,832	13.3%
Same-Property net operating income (cash basis) - Office[1]	**49,247**	44,793	9.9%	**140,124**	131,766	6.3%
Same-Property net operating income (cash basis) - Retail[1]	**24,244**	22,284	8.8%	**70,206**	64,596	8.7%
Same-Property net operating income (cash basis)[1]	**129,735**	115,232	12.6%	**382,561**	341,398	12.1%
Net operating income (cash basis) from Transactions at the REIT's proportionate share[1][2]	**32,491**	39,902	(18.6)%	**103,841**	118,825	(12.6)%
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share[1][3]	**15,324**	12,056	27.1%	**(14,946)**	(12,600)	(18.6)%
Straight-lining of contractual rent at the REIT's proportionate share[1]	**1,406**	3,388	(58.5)%	**9,477**	3,302	187.0%
Net operating income from equity accounted investments[1]	**(29,540)**	(22,211)	(33.0)%	**(81,689)**	(64,088)	(27.5)%
Net operating income per the REIT's Financial Statements	**$149,416**	148,367	0.7%	**$399,244**	$386,837	3.2%

Property Dispositions

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

In July 2023, H&R sold four single tenanted retail properties in Québec totalling 476,802 square feet for $68.0 million. These properties were classified as held for sale at June 30, 2023. The proceeds were used to repay debt and repurchase Units under the REIT’s normal course issuer bid (“NCIB”).

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

In August 2023, H&R sold a 13,510 square foot automotive-tenanted retail property in Roswell, GA for approximately U.S. $3.6 million. The property was 37.5% occupied as at June 30, 2023 and at closing.

2023 non-core property sales to date total $431.7 million.

(1) These are non-GAAP measures. Refer to the “Non-GAAP Measures” section of this news release.
(2) Transactions includes acquisitions, dispositions, and transfers of investment properties to or from properties under development during the 21-month period ended September 30, 2023.
(3) IFRIC 21 is defined in the “Non-GAAP Measures” section of this news release.

Leasing Highlights:

In Q1 2023, H&R entered into a lease amendment with its tenant at 6900 Maritz Drive in Mississauga, ON to terminate their lease in December 2023. The terms of the rental payments to December 2023 have not changed. The previous lease term would have ended in May 2031. H&R received a lease termination fee of approximately $0.9 million in Q1 2023 and received an additional $2.5 million in Q3 2023. IFRS 16, Leases ("IFRS 16") requires revenue from leases to be recognized on a straight-line basis over the contractual term of the lease. As a result of this lease amendment, non-cash adjustments to straight-lining of contractual rent of nil, $0.8 million, and ($1.8) million were recorded in Q1 2023, Q2 2023, and Q3 2023, respectively. In addition, $0.8 million will be recorded in Q4 2023. Refer to the "Future Intensification" section below for further details regarding H&R's plans to rezone this property from office to industrial use.

DEVELOPMENT UPDATE

Canadian Properties Under Development

The REIT currently has two industrial properties under development located at 1965 Meadowvale Boulevard and 1925 Meadowvale Boulevard in Mississauga, ON totalling 336,800 square feet, which are expected to be completed in Q4 2023 and Q1 2024, respectively. The REIT expects the construction costs for these two properties under development to be approximately $14.1 million for the remainder of 2023 and $4.4 million in 2024. In February 2023, H&R entered into a lease agreement to fully lease 1965 Meadowvale Boulevard, totalling 187,290 square feet, for a term of 10 years at market rents with annual contractual rental escalations. In March 2023, H&R entered into a lease agreement to fully lease 1925 Meadowvale Boulevard, totalling 149,510 square feet, for a term of 12.5 years at market rents with annual contractual rental escalations.

U.S. Properties under Development

The REIT commenced construction on two U.S. residential development properties in 2022. The total development budget to complete these two properties is approximately U.S. $110.0 million. The REIT expects its construction costs for these two properties under development to be approximately U.S. $27.9 million for the remainder of 2023 and U.S. $82.1 million in 2024.

Future Intensification

H&R is addressing comments for 53 and 55 Yonge Street received from the City of Toronto in September 2023 on the re-submission made to clear conditions that were set by the Ontario Land Tribunal. H&R expects to have rezoning approval in place by Q1 2024 for a 66-storey mixed use tower, including 511 residential units with approximately 159,000 square feet of replacement office area and approximately 13,000 square feet of retail area.

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

In October 2023, H&R submitted a Site Plan Approval application to the City of Mississauga for a new single story 122,400 square foot industrial building at 6900 Maritz Drive in Mississauga, ON, which would replace the existing 104,689 square foot office building. Demolition is expected to commence in Q4 2023 and Site Plan approval is expected by Q1 2024.

NORMAL COURSE ISSUER BID

During the three months ended September 30, 2023, the REIT purchased and cancelled 1,304,900 Units at a weighted average price of $10.38 per Unit, for a total cost of $13.6 million, representing an approximate 51.7% discount to NAV per Unit (a non-GAAP ratio, refer to the "Non-GAAP Measures" section of this news release). During the nine months ended September 30, 2023, the REIT purchased and cancelled 4,147,200 Units at a weighted average price of $10.30 per Unit, for a total cost of $42.7 million, representing an approximate 52.1% discount to NAV per Unit (a non-GAAP ratio, refer to the "Non-GAAP Measures" section of this news release).

2023 DISTRIBUTIONS

H&R increased its monthly distributions to $0.05 per Unit commencing January 2023. This equates to $0.60 per Unit annually, an 11.1% increase from the 2022 distribution of $0.54 per Unit, excluding the 2022 special cash distribution.

The 2022 special distribution of $0.40 per Unit was comprised of $0.05 per Unit in cash and $0.35 per Unit in additional Units, which were immediately consolidated such that there was no change in the number of outstanding Units.

As a result of the recently announced property sales, H&R expects to make a special distribution in 2023. The amount and nature of such distribution will be determined in Q4 2023.

For the three and nine months ended September 30, 2023, H&R's payout ratio as a percentage of AFFO (a non-GAAP ratio, refer to the "Non-GAAP Measures" section of this news release) was 41.6% and 52.0%, respectively.

DEBT & LIQUIDITY HIGHLIGHTS

Unsecured Term Loans

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

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

Lines of Credit

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

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

As at September 30, 2023, debt to total assets per the REIT's Financial Statements was 34.1% compared to 34.4% as at December 31, 2022. As at September 30, 2023, debt to total assets at the REIT's proportionate share (a non-GAAP ratio, refer to the "Non-GAAP Measures" section of this news release) was 43.9% compared to 44.0% as at December 31, 2022.

As at September 30, 2023, H&R had cash and cash equivalents of $145.9 million, $918.4 million available under its unused lines of credit and an unencumbered property pool of approximately $4.1 billion.

Respectfully,

TOM HOFSTEDTER
Executive Chairman & Chief Executive Officer

EXPERIENCED AND TENURED EXECUTIVE TEAM

A RESULTS-ORIENTED LEADERSHIP TEAM


TOM HOFSTEDTER
Executive Chairman & CEO


LARRY FROOM, CPA/CA
CFO


ROBYN KESTENBERG
EVP, Office & Industrial


EMILY WATSON
COO,
Lantower Residential

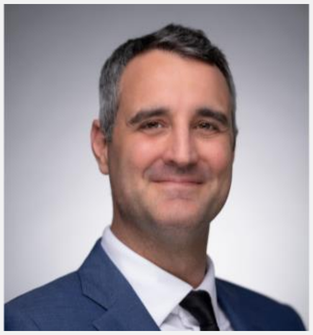

COLLEEN GRAHN
President, Property Management
Lantower Residential


HUNTER WEBB
EVP, Development
Lantower Residential


TONY DUPLISSE
EVP, Portfolio Management
Lantower Residential


CHERYL FRIED CPA/CA
EVP, Finance


BLAIR KUNDELL
EVP, Operations


MATT KINGSTON
EVP, Development
& Construction


AUDREY CRAIG
EVP, Accounting,
Lantower Residential

TRANSFORMATIONAL STRATEGIC REPOSITIONING PLAN

REPOSITIONING FOR GROWTH

DIVERSIFIED TO SIMPLIFIED

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

GROWTH

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

REPOSITION

- **Exit Retail** Over Time
- **Advance the rezoning** for redevelopment of approximately $731 million of office properties into upscale residential properties within growing markets
- **Exit Office** Over Time

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

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

For the three and nine months ended September 30, 2023

Dated: November 14, 2023

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SECTION I

BASIS OF PRESENTATION

Management's Discussion and Analysis ("MD&A") of the results of operations and financial position of H&R Real Estate Investment Trust ("H&R" or the "REIT") for the three and nine months ended September 30, 2023 includes material information up to November 14, 2023. Financial data for the three and nine months ended September 30, 2023 and 2022 have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of the REIT and related notes for the three and nine months ended September 30, 2023 ("REIT's Financial Statements"), together with the audited consolidated financial statements of the REIT and related notes and MD&A for the year ended December 31, 2022. All amounts in this MD&A are in thousands of Canadian dollars, except where otherwise stated. Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

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

FORWARD-LOOKING DISCLAIMER

Certain information in this MD&A contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, among others, statements made or implied under the headings "Investment Properties", "Future Intensification Opportunities", "Other Liabilities", "Segment Information", "Income and Expense Items", "Liquidity and Capital Resources", "Environmental, Social and Governance" and "Subsequent Events" relating to H&R's objectives, beliefs, plans, estimates, targets, projections and intentions and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts, including the statements made under the headings "Summary of Significant Q3 2023 Activity" including with respect to H&R's future plans and targets, H&R's intention to continue disposing of office and retail properties, H&R's strategy to grow its exposure to residential assets in U.S. sun belt and gateway cities, the ability of H&R to capture potential upside in the Calgary office market, expected Unit repurchases and their potential impact on unitholders, significant development projects, leasing of the REIT's investment properties and the termination of existing leases, H&R's expectation with respect to the future developments and activities of its development properties, including the development and use of new properties, the expected yield on cost from the REIT's development properties, the timing of construction and completion, expected construction costs, anticipated number of units and square footage, expected timing of approvals, H&R's expectations and intentions with respect to zoning and rezoning requests, the impact of the REIT's commitment to sustainability on its portfolio, the value of assets and liabilities held for sale, capitalization rates and cash flow models used to estimate fair values, expectations regarding future operating fundamentals, management's expectations regarding future distributions by the REIT, and management's expectation to be able to meet all of the REIT's ongoing obligations. Forward-looking statements generally can be identified by words such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans", "project", "budget" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect H&R's current beliefs and are based on information currently available to management.

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future, and readers are cautioned that such statements may not be appropriate for other purposes. These statements are not guarantees of future performance and are based on H&R's estimates and assumptions that are subject to risks, uncertainties and other factors including those risks and uncertainties described below under "Risks and Uncertainties" and those discussed in H&R's materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results, performance or achievements of H&R to differ materially from the forward-looking statements contained in this MD&A. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include assumptions relating to the general economy, including the effects of increased inflation; debt markets continuing to provide access to capital at a reasonable cost, notwithstanding rising interest rates; and assumptions concerning currency exchange and interest rates. Additional risks and uncertainties include, among other things, those related to: real property ownership; the current economic environment; credit risk and tenant concentration; lease rollover risk; interest rate and other debt-related risks; development risks; residential rental risk; capital expenditure risk; currency risk; liquidity risk; risks associated with disease outbreaks; cyber security risk; financing credit risk; ESG and climate change risk; co-ownership interest in properties; general uninsured losses; joint arrangement and investment risks; dependence on key personnel and succession planning; potential acquisition, investment and disposition opportunities and joint venture arrangements; potential undisclosed liabilities associated with acquisitions; competition for real property investments; Unit prices; potential conflicts of interest; availability of cash for distributions; credit ratings; ability to access capital markets; dilution; unitholder liability; redemption right; debentures; tax risk; additional tax risks applicable to unitholders; investment eligibility; and statutory remedies. H&R cautions that these lists of factors, risks and uncertainties are not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what H&R believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

Readers are also urged to examine H&R’s materials filed with the Canadian securities regulatory authorities from time to time as they may contain discussions on risks and uncertainties which could cause the actual results and performance of H&R to differ materially from the forward-looking statements contained in this MD&A. All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements are made as of November 14, 2023 and the REIT, except as required by applicable Canadian law, assumes no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances.

OVERVIEW AND STRATEGY

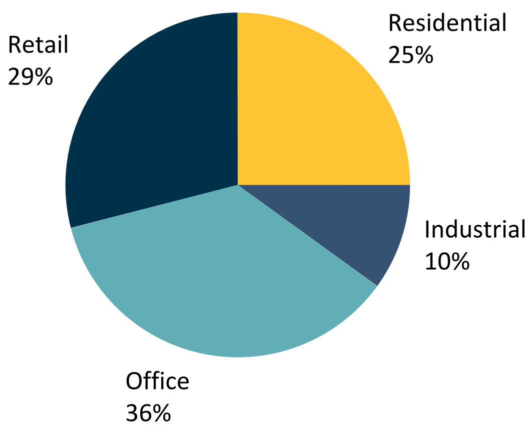
H&R is one of Canada’s largest real estate investment trusts with total assets of approximately $11.1 billion as at September 30, 2023. H&R has ownership interests in a North American portfolio comprised of high-quality residential (operating as Lantower Residential), industrial, office and retail properties totalling approximately 27.1 million square feet. H&R is an unincorporated open-ended trust created by a declaration of trust (“H&R’s Declaration of Trust”) and governed by the laws of the Province of Ontario. H&R’s units (“Units”) are listed and posted for trading on the Toronto Stock Exchange (“TSX”) under the symbol HR.UN. H&R’s objective is to maximize net asset value (“NAV”) per Unit through ongoing active management of H&R’s assets and the development and construction of projects.

H&R’s strategy is to create a simplified, growth-oriented business focused on residential and industrial properties in order to create sustainable long term value for unitholders. H&R is currently undergoing a repositioning plan and intends to sell its office and retail properties as market conditions permit. H&R’s vision is to be a leading owner, operator and developer of residential and industrial properties, creating value through redevelopment and greenfield development in prime locations within Toronto, Montreal, Vancouver, and high growth U.S. sun belt and gateway cities.

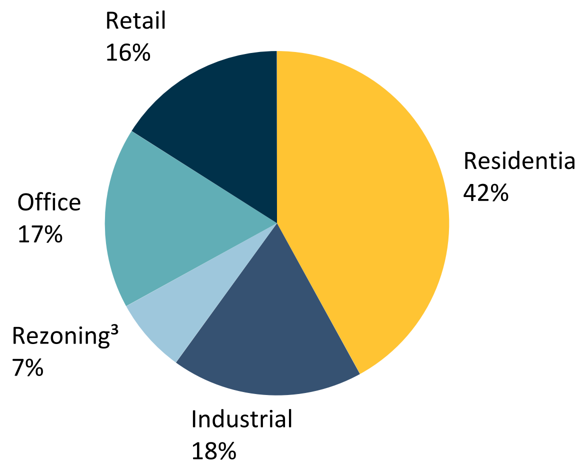
Since the announcement of H&R's Strategic Repositioning Plan, H&R's residential and industrial portfolio has grown in aggregate from 35% to 60% of total real estate assets as at September 30, 2023.

Real Estate Assets[1]

Q2 2021



Q3 2023[2]



(1) At the REIT's proportionate share, including assets classified as held for sale. Refer to the *"Non-GAAP Measures"* section of this MD&A.
(2) Excludes the Bow and 100 Wynford.
(3) Includes eight office properties advancing through the rezoning and intensification process to be converted into predominantly residential properties.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

As one of Canada's largest REITs, H&R strives to lead by example and be a part of the ever-changing journey to a more sustainable future. Having an integrated and forward-thinking sustainability program is of utmost importance. H&R formally implemented its Sustainability Policy and established its Sustainability Committee in 2019. The REIT views sustainability as its responsibility to its unitholders in terms of transparency, to its employees in terms of communication, collaboration and opportunity, to its tenants in terms of providing healthy working and living environments and to the greatest extent, to the communities in which the REIT's employees live and the REIT does business.

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

Key programs and initiatives are outlined in the *"Environmental, Social and Governance"* section of the REIT's annual MD&A for the year ended December 31, 2022 as well as H&R's 2022 Annual Information Form, each of which were filed with the securities regulatory authorities in each of the provinces of Canada and are available at www.sedarplus.com.

The REIT completed its 2022 Sustainability Report in October 2023, which highlights how the REIT's commitment to sustainability is manifesting itself in its portfolio and resulting in lasting changes for its properties, tenants, employees, stakeholders and communities at large.

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

Governance Update

In March 2023, H&R appointed of Donald Clow to the REIT's Board of Trustees (the "Board"). Mr. Clow filled the vacancy left by Ronald Rutman, who resigned from the Board following a successful term as vice-chair and Independent Lead Trustee. Subsequent to his appointment, the Board appointed Mr. Clow as Independent Lead Trustee of the Board.

In June 2023, Lindsay Brand and Leonard Abramsky were elected to the Board. The Board is comprised of 40% women. A non-binding advisory resolution, as set out in the management information circular dated April 25, 2023 for the annual meeting of unitholders of the REIT, was passed, with 89.2% of the total votes in favour of the REIT's approach to executive compensation.

SECTION II

SUMMARY OF SIGNIFICANT Q3 2023 ACTIVITY

2023 Net Operating Income Highlights:

	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2023**	2022	% Change	**2023**	2022	% Change
Operating Segment:						
Same-Property net operating income (cash basis) - Residential(1)	**$38,836**	$32,492	19.5%	**$120,295**	$99,204	21.3%
Same-Property net operating income (cash basis) - Industrial(1)	**17,408**	15,663	11.1%	**51,936**	45,832	13.3%
Same-Property net operating income (cash basis) - Office(1)	**49,247**	44,793	9.9%	**140,124**	131,766	6.3%
Same-Property net operating income (cash basis) - Retail(1)	**24,244**	22,284	8.8%	**70,206**	64,596	8.7%
Same-Property net operating income (cash basis)(1)	**129,735**	115,232	12.6%	**382,561**	341,398	12.1%
Net operating income (cash basis) from Transactions at the REIT's proportionate share(1)(2)	**32,491**	39,902	(18.6)%	**103,841**	118,825	(12.6)%
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share(1)(3)	**15,324**	12,056	27.1%	**(14,946)**	(12,600)	(18.6)%
Straight-lining of contractual rent at the REIT's proportionate share(1)	**1,406**	3,388	(58.5)%	**9,477**	3,302	187.0%
Net operating income from equity accounted investments(1)	**(29,540)**	(22,211)	(33.0)%	**(81,689)**	(64,088)	(27.5)%
Net operating income per the REIT's Financial Statements	**$149,416**	$148,367	0.7%	**$399,244**	$386,837	3.2%

(1) These are non-generally accepted accounting principles ("GAAP") measures. Refer to the *"Non-GAAP Measures"* section of this MD&A.
(2) Transactions are defined in the *"Net Operating Income"* section of this MD&A.
(3) IFRIC 21 is defined in the *"Non-GAAP Measures"* section of this MD&A.

Refer to the *"Net Operating Income"* section of this MD&A for further explanations on the net operating income changes for the three and nine months ended September 30, 2023.

Transaction Highlights

Property Dispositions

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

In July 2023, H&R sold four single tenanted retail properties in Québec totalling 476,802 square feet for $68.0 million. These properties were classified as held for sale at June 30, 2023. The proceeds were used to repay debt and repurchase Units under the REIT's normal course issuer bid ("NCIB").

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

In August 2023, H&R sold a 13,510 square foot automotive-tenanted retail property in Roswell, GA for approximately U.S. $3.6 million. The property was 37.5% occupied as at June 30, 2023 and at closing.

2023 non-core property sales to date total $431.7 million.

Proceeds on Disposal of Purchase Option

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

Leasing Highlights:

In Q1 2023, H&R entered into a lease amendment with its tenant at 6900 Maritz Drive in Mississauga, ON to terminate their lease in December 2023. The terms of the rental payments to December 2023 have not changed. The previous lease term would have ended in May 2031. H&R received a lease termination fee of approximately $0.9 million in Q1 2023 and received an additional $2.5 million in Q3 2023 ("6900 Maritz Lease Termination Payment"). IFRS 16, *Leases* ("IFRS 16") requires revenue from leases to be recognized on a straight-line basis over the contractual term of the lease. As a result of this lease amendment ("6900 Maritz Lease Amendment"), non-cash adjustments to straight-lining of contractual rent of nil, $0.8 million, and ($1.8) million were recorded in Q1 2023, Q2 2023, and Q3 2023, respectively. In addition, $0.8 million will be recorded in Q4 2023 . Refer to the "Future Intensification" section below for further details regarding H&R's plans to rezone this property from office to industrial use.

Development Update

Canadian Properties under Development

The REIT currently has two industrial properties under development located at 1965 Meadowvale Boulevard and 1925 Meadowvale Boulevard in Mississauga, ON totalling 336,800 square feet, which are expected to be completed in Q4 2023 and Q1 2024, respectively. The REIT expects the construction costs for these two properties under development to be approximately $14.1 million for the remainder of 2023 and $4.4 million in 2024. In February 2023, H&R entered into a lease agreement to fully lease 1965 Meadowvale Boulevard, totalling 187,290 square feet, for a term of 10 years at market rents with annual contractual rental escalations. In March 2023, H&R entered into a lease agreement to fully lease 1925 Meadowvale Boulevard, totalling 149,510 square feet, for a term of 12.5 years at market rents with annual contractual rental escalations.

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

U.S. Properties under Development

The REIT commenced construction on two U.S. residential development properties in 2022. The total development budget to complete these two properties is approximately U.S. $110.0 million. The REIT expects its construction costs for these two properties under development to be approximately U.S. $27.9 million for the remainder of 2023 and U.S. $82.1 million in 2024.

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

Future Intensification

H&R is addressing comments for 53 and 55 Yonge Street received from the City of Toronto in September 2023 on the re-submission made to clear conditions that were set by the Ontario Land Tribunal. H&R expects to have rezoning approval in place by Q1 2024 for a 66-storey mixed use tower, including 511 residential units with approximately 159,000 square feet of replacement office area and approximately 13,000 square feet of retail area.

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

In October 2023, H&R submitted a Site Plan Approval application to the City of Mississauga for a new single story 122,400 square foot industrial building at 6900 Maritz Drive in Mississauga, ON, which would replace the existing 104,689 square foot office building. Demolition is expected to commence in Q4 2023 and Site Plan approval is expected by Q1 2024.

NCIB

During the three months ended September 30, 2023, the REIT purchased and cancelled 1,304,900 Units at a weighted average price of $10.38 per Unit, for a total cost of $13.6 million, representing an approximate 51.7% discount to NAV per Unit (a non-GAAP ratio, refer to the *"Non-GAAP Measures"* section of this MD&A). During the nine months ended September 30, 2023, the REIT purchased and cancelled 4,147,200 Units at a weighted average price of $10.30 per Unit, for a total cost of $42.7 million, representing an approximate 52.1% discount to NAV per Unit (a non-GAAP ratio, refer to the *"Non-GAAP Measures"* section of this MD&A).

2023 Distributions

H&R increased its monthly distributions to $0.05 per Unit commencing January 2023. This equates to $0.60 per Unit annually, an 11.1% increase from the 2022 distribution of $0.54 per Unit, excluding the 2022 special cash distribution.

The 2022 special distribution of $0.40 per Unit was comprised of $0.05 per Unit in cash and $0.35 per Unit in additional Units, which were immediately consolidated such that there was no change in the number of outstanding Units.

As a result of the recently announced property sales, H&R expects to make a special distribution in 2023. The amount and nature of such distribution will be determined in Q4 2023.

For the three and nine months ended September 30, 2023, H&R's payout ratio as a percentage of Adjusted Funds from Operations ("AFFO") (a non-GAAP ratio, refer to the *"Non-GAAP Measures"* section of this MD&A) was 41.6% and 52.0%, respectively.

Debt & Liquidity Highlights

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

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

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

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

As at September 30, 2023, debt to total assets per the REIT's Financial Statements was 34.1% compared to 34.4% as at December 31, 2022. As at September 30, 2023, debt to total assets at the REIT's proportionate share (a non-GAAP ratio, refer to the "Non-GAAP Measures" section of this MD&A) was 43.9% compared to 44.0% as at December 31, 2022.

As at September 30, 2023, H&R had cash and cash equivalents of $145.9 million, $918.4 million available under its unused lines of credit and an unencumbered property pool of approximately $4.1 billion.

PORTFOLIO SUMMARY

(in thousands of Canadian dollars, except for statistics) (All periods exclude the Bow and 100 Wynford)	Q3 2023	Q4 2022	Q3 2022
Residential:[1]			
Number of properties	**24**	24	24
Square feet	**7,499**	7,498	7,498
Residential rental units	**8,166**	8,164	8,164
Occupancy	**94.9%**	94.5%	94.5%
Contractual mortgages payable including liabilities classified as held for sale	**$1,824,771**	$1,837,890	$1,862,394
Investment properties including assets classified as held for sale	**$3,765,215**	$3,877,344	$3,858,401
Capitalization rate	**4.49%**	4.20%	4.06%
Rentals from investment properties	**$71,415**	$69,651	$63,365
Net operating income	**$49,518**	$45,742	$39,622
Same-Property net operating income (cash basis)[2]	**$38,836**	$37,137	$32,492
Industrial:[1]			
Number of properties	**72**	74	73
Square feet	**8,728**	8,759	8,722
Occupancy	**99.2%**	97.9%	97.2%
Average remaining term to maturity of commercial leases (in years)	**4.9**	5.5	5.3
Contractual mortgages payable including liabilities classified as held for sale	**$266,513**	$274,687	$281,300
Investment properties including assets classified as held for sale	**$1,507,005**	$1,490,939	$1,460,952
Capitalization rate	**5.28%**	5.16%	5.12%
Rentals from investment properties	**$24,354**	$22,012	$21,017
Net operating income	**$18,776**	$16,791	$16,237
Same-Property net operating income (cash basis)[2]	**$17,408**	$16,234	$15,663
Office:[1]			
Number of properties	**22**	25	25
Square feet	**5,702**	6,803	6,834
Occupancy	**98.0%**	98.6%	97.1%
Average remaining term to maturity of commercial leases (in years)	**6.9**	7.5	7.7
Contractual mortgages payable including liabilities classified as held for sale	**$237,140**	$256,074	$259,326
Investment Properties including assets classified as held for sale	**$2,527,824**	$3,007,995	$3,160,100
Capitalization rate	**6.87%**	6.43%	6.17%
Rentals from investment properties	**$77,356**	$86,984	$88,912
Net operating income	**$55,207**	$57,492	$60,611
Same-Property net operating income (cash basis)[2]	**$49,247**	$44,197	$44,793
Retail:[1]			
Number of properties	**274**	281	284
Square feet	**5,209**	5,711	5,686
Occupancy	**95.7%**	95.3%	94.1%
Average remaining term to maturity of commercial leases (in years)	**8.4**	8.6	8.5
Contractual mortgages payable including liabilities classified as held for sale	**$116,947**	$127,543	$135,436
Investment properties including assets classified as held for sale[3]	**$1,597,119**	$1,718,371	$1,806,337
Capitalization rate	**6.47%**	6.40%	6.28%
Rentals from investment properties	**$34,634**	$36,346	$33,524
Net operating income	**$27,984**	$29,392	$27,311
Same-Property net operating income (cash basis)[2]	**$24,244**	$24,665	$22,284
Total:[1]			
Number of properties	**392**	404	406
Square feet	**27,138**	28,771	28,740
Occupancy	**97.0%**	96.6%	95.8%
Average remaining term to maturity of commercial leases (in years)	**6.9**	7.4	7.5
Contractual mortgages payable including liabilities classified as held for sale	**$2,445,371**	$2,496,194	$2,538,456
Investment properties including assets classified as held for sale[3]	**$9,397,163**	$10,094,649	$10,285,790
Capitalization rate	**5.59%**	5.37%	5.24%
Rentals from investment properties	**$207,759**	$214,993	$206,818
Net operating income	**$151,485**	$149,417	$143,781
Same-Property net operating income (cash basis)[2]	**$129,735**	$122,233	$115,232

(1) All figures have been reported at the REIT's proportionate share, which is a non-GAAP measure defined in the *"Non-GAAP Measures"* section of this MD&A.
(2) Same-Property net operating income (cash basis) is a non-GAAP measure defined in the *"Non-GAAP Measures"* section of this MD&A.
(3) Includes a right-of-use asset in a leasehold interest for Q3 2023, Q4 2022 and Q3 2022 of $32.9 million, $35.6 million and $36.9 million, respectively (included within equity accounted investments), which was measured at an amount equal to the corresponding lease liabilities.

KEY PERFORMANCE DRIVERS

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

OPERATIONS		Residential	Industrial	Office[3]	Retail	Total
Occupancy as at September 30	**2023**	**94.9%**	**99.2%**	**98.0%**	**95.7%**	**97.0%**
	2022	94.5%	97.2%	97.1%	94.1%	95.8%
Occupancy – Same-Property as at September 30[1]	**2023**	**95.2%**	**99.3%**	**98.1%**	**95.7%**	**97.1%**
	2022	95.0%	99.5%	99.1%	93.7%	97.0%
Average annual contractual rent per sq.ft. for the nine months ended September 30-Canadian properties[2]	**2023**	**N/A**	**$8.83**	**$21.32**	**$12.86**	**$12.93**
	2022	N/A	$8.01	$21.39	$12.04	$13.03
Average annual contractual rent per sq.ft. for the nine months ended September 30-U.S. properties (USD)[2]	**2023**	**$27.26**	**$4.39**	**$37.63**	**$19.25**	**$25.38**
	2022	$26.21	$4.16	$36.06	$19.25	$24.61
Average remaining term to maturity of leases as at September 30 (in years)	**2023**	**N/A**	**4.9**	**6.9**	**8.4**	**6.9**
	2022	N/A	5.3	7.7	8.5	7.5
Average remaining term to maturity of mortgages payable as at September 30 (in years)	**2023**	**4.7**	**3.3**	**4.5**	**7.2**	**4.6**
	2022	5.7	3.8	5.5	7.9	5.5

(1) Same-Property refers to those properties owned by H&R for the 21-month period ended September 30, 2023.
(2) Excludes properties sold in their respective year.
(3) The Bow and 100 Wynford have been excluded from the above statistics as they were legally sold in October 2021 and August 2022, respectively. Refer to the *"Other Liabilities - Deferred Revenue"* section of this MD&A for further information on the accounting treatment of these two dispositions.

PORTFOLIO OVERVIEW

The geographic diversification of the portfolio of investment properties in which the REIT has an interest and the related square footage is disclosed at the REIT's proportionate share as at September 30, 2023 in the tables below:

Number of Properties[1][2]	**Canada**					
	Ontario	**Alberta**	**Other**	**Subtotal**	**United States**	**Total**
Residential[3]	—	—	—	—	24	24
Industrial	36	16	17	69	3	72
Office	13	1	4	18	4	22
Retail	30	1	3	34	240	274
Total	79	18	24	121	271	392

Square Feet (in thousands)[1][2]	**Canada**					
	Ontario	**Alberta**	**Other**	**Subtotal**	**United States**	**Total**
Residential[3]	—	—	—	—	7,499	7,499
Industrial	4,967	1,923	1,138	8,028	700	8,728
Office	2,641	466	893	4,000	1,702	5,702
Retail	1,469	150	231	1,850	3,359	5,209
Total	9,077	2,539	2,262	13,878	13,260	27,138

(1) Excludes the Bow and 100 Wynford, as these properties were legally sold in October 2021 and August 2022, respectively.
(2) Excludes all properties held for development. Refer to the *"Canadian Properties under Development"* and *"U.S. Properties under Development"* section of this MD&A for further information on properties held for development.
(3) The residential properties contain 8,166 residential rental units.

LEASE MATURITY PROFILE

The following tables disclose H&R's leases expiring in Canada and the United States as at September 30, 2023 at the REIT's proportionate share, excluding the Residential segment where leases typically expire annually.

Canadian Portfolio:

	Industrial		Office		Retail		Total		
Lease Expiries	Sq.ft.	Rent per sq.ft. ($) on expiry	Sq.ft.	Rent per sq.ft. ($) on expiry	Sq.ft.	Rent per sq.ft. ($) on expiry	Sq.ft.	% of Canadian sq. ft.	Rent per sq.ft. ($) on expiry
2023[1]	75,199	11.61	270,416	15.28	1,961	26.12	347,576	2.5%	14.55
2024	983,386	10.79	419,913	8.89	62,337	15.10	1,465,636	10.6%	10.43
2025	726,932	6.83	400,715	20.39	127,266	13.62	1,254,913	9.0%	11.85
2026	407,347	7.99	909,589	15.71	104,759	13.23	1,421,695	10.2%	13.32
2027	2,947,172	7.20	341,058	22.44	126,807	10.67	3,415,037	24.6%	8.85
2028	520,759	11.79	94,740	23.96	174,098	7.43	789,597	5.7%	12.29
	5,660,795	8.31	2,436,431	16.52	597,228	11.32	8,694,454	62.6%	10.82

U.S. Portfolio:

	Industrial		Office		Retail		Total		
Lease Expiries	Sq.ft.	Rent per sq.ft. ($) on expiry[2]	Sq.ft.	Rent per sq.ft. ($) on expiry[2]	Sq.ft.	Rent per sq.ft. ($) on expiry[2]	Sq.ft.	% of U.S. sq. ft.	Rent per sq.ft. ($) on expiry[2]
2023[1]	—	—	1,650	18.18	74,479	19.30	76,129	1.3%	19.28
2024	123,090	3.75	9,000	16.00	128,968	14.99	261,058	4.5%	9.73
2025	—	—	92,694	15.23	164,614	22.42	257,308	4.5%	19.83
2026	—	—	284,062	36.01	165,877	22.55	449,939	7.8%	31.05
2027	—	—	—	—	355,676	16.75	355,676	6.2%	16.75
2028	—	—	2,912	21.00	340,539	17.98	343,451	6.0%	18.01
	123,090	3.75	390,318	30.43	1,230,153	18.60	1,743,561	30.3%	20.20

(1) For the balance of the year.
(2) U.S. dollars.

TOP TWENTY SOURCES OF REVENUE BY TENANT

The following table discloses H&R's top twenty tenants, based on rentals from investment properties, as at September 30, 2023 at the REIT's proportionate share:

	Tenant	% of Rentals from Investment Properties[(1)]	Number of Locations	H&R owned sq.ft. (in 000's)	Average Lease Term to Maturity (in years)[(2)]	Credit Ratings (S&P)
1.	Hess Corporation	8.5%	1	845	9.4	BBB- Stable
2.	New York City Department of Health	6.5%	1	660	7.2	A+ Stable
3.	Giant Eagle, Inc.	5.1%	197	1,634	9.1	Not Rated
4.	TC Energy Corporation	3.0%	1	466	7.6	BBB+ Negative
5.	Corus Entertainment Inc.	2.9%	1	472	9.5	BB- Stable
6.	Canadian Tire Corporation[(3)]	2.4%	3	2,110	3.3	BBB Stable
7.	Ovintiv Inc.[(4)]	1.8%	—	—	14.6	BBB- Stable
8.	Toronto-Dominion Bank	1.5%	3	270	4.1	AA- Stable
9.	Telus Communications	1.3%	1	333	1.7	BBB Stable
10.	Royal Bank of Canada	1.3%	2	227	1.9	AA- Stable
11.	Lowe's Companies, Inc.	1.2%	7	650	10.3	BBB+ Stable
12.	Bell Canada	1.1%	2	438	3.2	BBB+ Stable
13.	Finning International Inc.	0.9%	10	366	6.2	BBB+ Stable
14.	Sobeys Inc.	0.9%	9	331	7.5	BBB- Stable
15.	Metro Inc.	0.8%	11	369	4.9	BBB Stable
16.	Purolator Inc.	0.7%	12	535	6.0	Not Rated
17.	Miami-Dade County[(5)]	0.6%	1	93	14.1	AA Stable
18.	Deutsche Post AG	0.6%	1	343	7.3	Not Rated
19.	Government of Ontario[(6)]	0.6%	3	114	7.3	A+ Positive
20.	Canadian Imperial Bank of Commerce	0.6%	2	148	1.8	A+ Stable
	Total	**42.3%**	**268**	**10,404**	**8.0**	

(1) The percentage of rentals from investment properties is based on estimated annualized gross revenue excluding straight-lining of contractual rent, rent amortization of tenant inducements and capital expenditure recoveries.
(2) Average lease term to maturity is weighted based on net rent.
(3) Canadian Tire Corporation includes Canadian Tire and Mark's.
(4) Ovintiv Inc. includes 15% of the net rent payable under the Ovintiv lease (as defined in the *"Other Liabilities - Deferred Revenue"* section of this MD&A).
(5) Miami-Dade County includes The Public Health Trust and Offices for State Attorney.
(6) Government of Ontario includes the Financial Services Regulatory Authority of Ontario and the Liquor Control Board of Ontario.

FINANCIAL HIGHLIGHTS

(in thousands except for per Unit amounts)	**September 30 2023**	December 31 2022	December 31 2021
Total assets	**$11,064,935**	$11,412,603	$10,501,141
Debt to total assets per the REIT's Financial Statements(1)	**34.1%**	34.4%	37.1%
Debt to total assets at the REIT's proportionate share(1)(2)	**43.9%**	44.0%	46.6%
Debt to Adjusted EBITDA at the REIT's proportionate share(1)(2)(3)	**8.7**	9.6	7.2
Unitholders' equity	**$5,400,145**	$5,487,287	$4,773,833
Units outstanding	**261,868**	265,885	288,440
Exchangeable units outstanding	**17,974**	17,974	13,344
Unitholders' equity per Unit	**$20.62**	$20.64	$16.55
NAV per Unit(2)(4)	**$21.49**	$21.80	$17.70

	Three months ended September 30		Nine months ended September 30	
(in thousands except for per Unit amounts)	**2023**	2022	**2023**	2022
Rentals from investment properties	**$210,446**	$213,709	**$641,242**	$617,805
Net operating income	**$149,416**	$148,367	**$399,244**	$386,837
Same-Property net operating income (cash basis)(5)	**$129,735**	$115,232	**$382,561**	$341,398
Net income (loss) from equity accounted investments	**($11,017)**	($60,071)	**$139**	($6,334)
Fair value adjustment on real estate assets	**($112,824)**	($235,192)	**($288,517)**	$770,561
Net income (loss)	**$37,596**	($121,496)	**$73,003**	$960,952
Funds from Operations (“FFO”)(5)	**$117,695**	$85,923	**$289,701**	$253,309
AFFO(5)	**$101,195**	$72,699	**$244,494**	$224,853
Weighted average number of Units and exchangeable units for FFO	**280,205**	284,734	**282,480**	293,115
FFO per basic Unit(2)	**$0.420**	$0.302	**$1.026**	$0.864
AFFO per basic Unit(2)	**$0.361**	$0.255	**$0.866**	$0.767
Cash Distributions per Unit	**$0.150**	$0.137	**$0.450**	$0.402
Payout ratio as a % of FFO(2)	**35.7%**	45.4%	**43.9%**	46.5%
Payout ratio as a % of AFFO(2)	**41.6%**	53.7%	**52.0%**	52.4%

(1) Debt includes mortgages payable, debentures payable, unsecured term loans, lines of credit and liabilities classified as held for sale.
(2) These are non-GAAP ratios. Refer to the *“Non-GAAP Measures”* section of this MD&A.
(3) Adjusted EBITDA is based on the trailing 12 months and is defined in the “*Debt”* section of this MD&A.
(4) Refer to the *“Unitholders’ Equity”* section of this MD&A for a detailed calculation of NAV per Unit.
(5) These are non-GAAP measures. Refer to the *“Non-GAAP Measures”* section of this MD&A.

SECTION III

FINANCIAL POSITION

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

	September 30 2023	December 31 2022
For each U.S. $1.00	**$1.36 CAD**	$1.36 CAD

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

	September 30, 2023			December 31, 2022		
(in thousands of Canadian dollars)	**REIT's Financial Statements**	**Equity accounted investments**	**REIT's proportionate share[1]**	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share[1]
Assets						
Real estate assets						
Investment properties	**$8,375,212**	**$2,075,088**	**$10,450,300**	$8,799,317	$2,128,306	$10,927,623
Properties under development	**1,066,863**	**126,621**	**1,193,484**	880,778	89,912	970,690
	9,442,075	**2,201,709**	**11,643,784**	9,680,095	2,218,218	11,898,313
Equity accounted investments	**1,055,883**	**(1,055,883)**	**—**	1,060,268	(1,060,268)	—
Assets classified as held for sale	**43,656**	**—**	**43,656**	294,028	—	294,028
Other assets	**377,450**	**22,278**	**399,728**	301,325	21,892	323,217
Cash and cash equivalents	**145,871**	**33,656**	**179,527**	76,887	38,443	115,330
	$11,064,935	**$1,201,760**	**$12,266,695**	$11,412,603	$1,218,285	$12,630,888
Liabilities and Unitholders' Equity						
Liabilities						
Debt	**$3,775,649**	**$1,126,243**	**$4,901,892**	$3,922,529	$1,137,210	$5,059,739
Exchangeable units	**165,902**	**—**	**165,902**	217,668	—	217,668
Deferred Revenue	**957,551**	**—**	**957,551**	986,243	—	986,243
Deferred tax liability	**446,860**	**—**	**446,860**	483,048	—	483,048
Accounts payable and accrued liabilities	**318,828**	**59,540**	**378,368**	309,505	58,502	368,007
Liabilities classified as held for sale	**—**	**—**	**—**	6,323	—	6,323
Non-controlling interest	**—**	**15,977**	**15,977**	—	22,573	22,573
	5,664,790	**1,201,760**	**6,866,550**	5,925,316	1,218,285	7,143,601
Unitholders' equity	**5,400,145**	**—**	**5,400,145**	5,487,287	—	5,487,287
	$11,064,935	**$1,201,760**	**$12,266,695**	$11,412,603	$1,218,285	$12,630,888

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

INVESTMENT PROPERTIES

2023 Acquisitions

H&R did not acquire any investment properties during the nine months ended September 30, 2023.

2022 Acquisitions

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

(1) Square feet and purchase price are based on the ownership interest acquired.
(2) This U.S. acquisition has been translated to Canadian dollars using the exchange rate on the day the property was acquired.

2023 Dispositions

Property	Segment	Date Sold	Square Feet	Selling Price ($ Millions)	Ownership Interest Sold
2611-3rd Ave. S.E., Calgary, AB(1)(2)	Office	Jan 23, 2023	47,613	$16.8	50%
749 Douglas Fir Rd., Sparwood, BC(1)(2)	Industrial	Jan 27, 2023	15,892	2.2	50%
160 Elgin St., Ottawa, ON	Office	Apr 20, 2023	973,661	277.0	100%
9331-48th St., Edmonton, AB(2)	Industrial	May 24, 2023	14,916	0.6	50%
225 Joseph Casavant Ave., Beauport, QC	Retail	Jul 6, 2023	124,182	17.2	100%
1 Boul. Bouthillier, Rosemere, QC	Retail	Jul 6, 2023	124,851	16.9	100%
7277 St. Jacques St., Montreal, QC	Retail	Jul 6, 2023	110,004	17.5	100%
5035 Boul. Cousineau, Saint-Hubert, QC	Retail	Jul 6, 2023	117,765	16.4	100%
5901 E. Fowler Ave., Temple Terrace, FL(3)	Office	Aug 1, 2023	85,725	17.7	100%
4845 & 4865 Alabama Rd., Roswell, GA(3)	Retail	Aug 2, 2023	13,510	4.7	100%
Total			1,628,119	$387.0	

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

2022 Dispositions[1]

Property	Segment	Date Sold	Square Feet	Selling Price ($ Millions)	Ownership Interest Sold
16542 Keystone Blvd., Parker, CO[2]	Retail	Jun 10, 2022	13,417	$12.5	100%
3332 Arapahoe Rd., Erie, CO[2]	Retail	Jun 10, 2022	12,007	7.4	100%
7520 Village Square Dr., Castle Rock, CO[2]	Retail	Jun 10, 2022	11,707	10.2	100%
22994 E. Smoky Hill Rd., Aurora, CO[2]	Retail	Jun 10, 2022	13,283	12.0	100%
593 Summit Blvd., Broomfield, CO[2]	Retail	Jun 10, 2022	14,441	11.8	100%
901 Supermall Rd., Auburn, WA[2]	Retail	Jun 10, 2022	14,434	8.4	100%
1546 E. Ray Rd., Gilbert, AZ[2]	Retail	Jun 10, 2022	14,916	12.1	100%
327 W. Sunset Rd., San Antonio, TX[2][3]	Residential	Jun 23, 2022	259,951	90.1	100%
5321-11th St. N.E., Calgary, AB[4]	Industrial	Jun 23, 2022	21,493	3.5	50%
2767 2nd Ave., Calgary, AB	Office	Aug 31, 2022	69,793	18.7	100%
2665 32nd St., Calgary, AB	Retail	Aug 31, 2022	89,438	14.1	100%
2342 Princess St., Kingston, ON	Retail	Aug 31, 2022	129,181	14.2	100%
8237 & 8333 West Thunderbird Rd., Peoria, AZ[2]	Retail	Oct 3, 2022	11,811	11.3	100%
1947 & 1959 South Greenfield Rd., Mesa, AZ[2]	Retail	Oct 3, 2022	13,498	12.0	100%
649 North Service Rd., Burlington, ON	Office	Oct 24, 2022	123,000	26.0	100%
4901 & 4951 W. Eldorado Pkwy., McKinney, TX[2]	Retail	Dec 30, 2022	13,404	6.7	100%
Total			825,774	$271.0	

(1) Excludes the sale of 100 Wynford for $120.8 million. This transaction did not meet the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of 100 Wynford in 2036 or earlier under certain circumstances. As such, the REIT continues to recognize the income producing property. Refer to the *"Other Liabilities - Deferred Revenue"* section of this MD&A for further information.
(2) U.S. dispositions have been translated to Canadian dollars using the exchange rate on the day the property was sold.
(3) Property consists of 312 residential rental units.
(4) Square feet and selling price are based on the ownership interest sold, and H&R no longer holds any ownership interest in this asset.

Investment Properties and Properties under Development by Segment and Region

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

September 30, 2023								
	REIT's Financial Statements		Equity Accounted Investments					
Operating Segment (in thousands of Canadian dollars)	Investment Properties	Properties Under Development	Investment Properties	Properties Under Development	REIT's Proportionate Share[1]	The Bow and 100 Wynford	Total	%
Residential	$2,594,945	$638,902	$1,170,270	$82,537	$4,486,654	$—	$4,486,654	42.5%
Industrial	1,448,994	417,607	21,291	19,205	1,907,097	—	1,907,097	18.1%
Office	3,617,681	10,354	—	—	3,628,035	(1,096,793)	2,531,242	24.0%
Retail	713,592	—	883,527	24,879	1,621,998	—	1,621,998	15.4%
Total	$8,375,212	$1,066,863	$2,075,088	$126,621	$11,643,784	($1,096,793)	$10,546,991	100.0%

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

September 30, 2023								
	REIT's Financial Statements		Equity Accounted Investments					
Geographic Location (in thousands of Canadian dollars)	Investment Properties	Properties Under Development	Investment Properties	Properties Under Development	REIT's Proportionate Share[1]	The Bow and 100 Wynford	Total	%
Ontario	$2,436,664	$417,607	$—	$19,205	$2,873,476	($110,824)	$2,762,652	26.2%
Alberta	1,399,201	—	—	—	1,399,201	(985,969)	413,232	3.9%
Other	458,330	10,354	—	—	468,684	—	468,684	4.5%
Canada	4,294,195	427,961	—	19,205	4,741,361	(1,096,793)	3,644,568	34.6%
United States	4,081,017	638,902	2,075,088	107,416	6,902,423	—	6,902,423	65.4%
Total	$8,375,212	$1,066,863	$2,075,088	$126,621	$11,643,784	($1,096,793)	$10,546,991	100.0%

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

VALUATION OF INVESTMENT PROPERTIES

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

(i) discounted cash flow analyses which are based upon, among other things, future cash inflows in respect of rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the reporting period, less future cash outflows in respect of such leases and capital expenditures for the property utilizing appropriate discount rates and terminal capitalization rates, generally over a minimum term of 10 years; and

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

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

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

September 30, 2023	**Residential**	**Industrial**	**Office**	**Retail**	**Total**
Canada	**—**	**5.24%**	**6.25%**	**6.30%**	**5.80%**
United States	**4.49%**	**6.32%**	**7.65%**	**6.52%**	**5.48%**
Total	**4.49%**	**5.28%**	**6.87%**	**6.47%**	**5.59%**

As at September 30, 2023, the weighted average capitalization rate for residential properties in the U.S. sun belt states was 4.75%, resulting in an overall weighted average capitalization rate of 4.49% for the residential portfolio.

As at September 30, 2023, the weighted average Canadian office capitalization rate was 6.25%, which was comprised of a 5.16% capitalization rate for 8 Canadian properties designated for future intensification and a 7.44% capitalization rate for 10 Canadian properties expected to be sold as part of H&R's plan to sell office properties.

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

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

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

PROPERTIES UNDER DEVELOPMENT

Canadian Properties under Development

The Canadian properties currently held for development are:

As at September 30, 2023				**At H&R's Ownership Interest**				
(in thousands of Canadian dollars)	**Ownership Interest**	**Square Feet**	**Number of Acres**	**Total Development Budget**	**Costs Incurred to Date[4]**	**Costs Remaining to Complete**	**Expected Yield on Budgeted Cost**	**Expected Completion Date**
Current Developments:								
1965 Meadowvale Blvd., Mississauga, ON[1]	100.0%	187,290	7.5	$46,560	$37,140	$9,420	7.1%	Q4 2023
1925 Meadowvale Blvd., Mississauga, ON[2]	100.0%	149,510	8.0	38,697	29,648	9,049	6.7%	Q1 2024
		336,800	**15.5**	**85,257**	**66,788**	**18,469**		
Future Developments:								
Industrial Lands (Remaining lands), Caledon, ON	100.0%		117.6	—	75,908	—		
3791 Kingsway, Burnaby, BC[3]	50.0%		0.3	—	10,354	—		
			117.9	**—**	**86,262**	**—**		
		336,800	**133.4**	**$85,257**	**$153,050**	**$18,469**		

(1) In February 2023, H&R entered into a lease agreement to fully lease 1965 Meadowvale Blvd. for a term of 10 years at market rents with annual contractual rental escalations.

(2) In March 2023, H&R entered into a lease agreement to fully lease 1925 Meadowvale Blvd. for a term of 12.5 years at market rents with annual contractual rental escalations.

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

(4) Excludes fair value adjustments to Canadian properties under development totalling $274.9 million as at September 30, 2023.

U.S. Properties under Development

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

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

As at September 30, 2023				**At H&R's Ownership Interest**				
(in thousands of U.S. dollars)	**Ownership Interest**	**Number of Acres**	**Number of Residential Rental Units**	**Total Development Budget**	**Costs Incurred to Date**	**Costs Remaining to Complete**	**Expected Yield on Budgeted Cost**	**Expected Completion Date**
Current Developments:								
West Love, Dallas, TX	100.0%	5.4	413	$105,692	$59,150	$46,542	5.7%	Q3 2024
Midtown, Dallas, TX	100.0%	4.2	350	104,113	40,647	63,466	5.7%	Q3 2024
		9.6	**763**	**209,805**	**99,797**	**110,008**		
Future Developments:								
The Cove, Jersey City, NJ	100.0%	12.4	2,840	—	175,804			
12 Remaining Future Developments	100.0%	107.8	4,559	—	180,019			
West Town, Orlando, FL	50.0%	13.5	271	—	14,161			
		133.7	**7,670**	**—**	**369,984**	**—**		
		143.3	**8,433**	**$209,805**	**$469,781**	**$110,008**		

FUTURE INTENSIFICATION OPPORTUNITIES

As at September 30, 2023, the following properties are advancing through the process of rezoning for residential use (figures below are shown at H&R's ownership interest).

Property[(1)(2)]	**Geography**	**Ownership**	**Future Use**	**Current Square Feet**	**Anticipated Residential Units**	**Anticipated Commercial Square Feet**	**Approval Status[(3)]**	**Municipal Approval Date**
145 Wellington St. W.	Toronto, ON	100%	Residential	160,098	512	156,000	ZBA Enforced & SPA Submitted	August 2022
310 Front St. W.	Toronto, ON	100%	Residential	122,486	578	121,000	ZBA Enforced & SPA Submitted	August 2023
53 & 55 Yonge St.	Toronto, ON	100%	Residential	171,758	511	172,000	ZBA & SPA Submitted	Q1 2024
6900 Maritz Dr.	Mississauga, ON	100%	Industrial	104,689	—	122,400	SPA Submitted	Q1 2024
200 Bouchard Blvd.	Dorval, QC	100%	Residential	437,157	850	10,000	Submission Pending	2024
3777 & 3791 Kingsway	Burnaby, BC	50%	Residential	335,778	1,250	230,000	SPoD Submitted	2024
77 Union St.	Toronto, ON	100%	Residential	195,000	1,400	91,000	ZBA & SPA Submitted	2024
69 Yonge St.	Toronto, ON	100%	Residential	88,006	125	14,000	ZBA & SPA Submitted	2024
				1,614,972	5,226	916,400		

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

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

(3) Zoning By-Law Amendment is referred to as "ZBA", Site Plan Control Application is referred to as "SPA" and Suitable Plan of Development is referred to as "SPoD" in the table above.

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

H&R is addressing comments for 53 and 55 Yonge Street received from the City of Toronto in September 2023 on the re-submission made to clear conditions that were set by the Ontario Land Tribunal. H&R expects to have rezoning approval in place by Q1 2024 for a 66-storey mixed use tower, including 511 residential units with approximately 159,000 square feet of replacement office area and approximately 13,000 square feet of retail area.

In Q1 2023, H&R entered into a lease amendment with its tenant at 6900 Maritz Drive in Mississauga, ON to terminate their lease in December 2023. The terms of the rental payments to December 2023 have not changed. In October 2023, H&R submitted a Site Plan Approval application to the City of Mississauga for a new single story 122,400 square foot industrial building at 6900 Maritz Drive in Mississauga, ON, which would replace the existing 104,689 square foot office building. Demolition is expected to commence in Q4 2023 and Site Plan approval is expected by Q1 2024.

EQUITY ACCOUNTED INVESTMENTS

	------- Associates--------		Joint Ventures[1]	
(in thousands of Canadian dollars)	ECHO	Jackson Park		**Total[2]**
Investment properties	$883,527	$1,028,855	$162,706	**$2,075,088**
Properties under development	24,879	—	101,742	**126,621**
Other assets	19,066	1,463	1,749	**22,278**
Cash and cash equivalents	6,320	5,381	21,955	**33,656**
Debt	(348,132)	(673,912)	(104,199)	**(1,126,243)**
Accounts payable and accrued liabilities	(49,517)	(7,181)	(2,842)	**(59,540)**
Non-controlling interest	(15,977)	—	—	**(15,977)**
September 30, 2023	**$520,166**	**$354,606**	**$181,111**	**$1,055,883**
December 31, 2022	$537,106	$355,503	$167,659	$1,060,268

(1) Joint ventures include Slate Drive, one industrial property, Hercules Project, Shoreline, Central Pointe and Sunny Creek.
(2) Each of these line items represent the REIT's proportionate share of equity accounted investments, which are reconciled to the total equity accounted investments per the REIT's Financial Statements. This is a non-GAAP measure defined in the *"Non-GAAP Measures"* section of this MD&A.

Jackson Park

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

ECHO

H&R owns a 33.1% interest in Echo Realty LP ("ECHO"), a privately held real estate and development company that focuses on developing and owning a core portfolio of grocery anchored shopping centres, primarily in Pennsylvania and Ohio. ECHO reports its financial results to H&R one month in arrears. ECHO's financial information has been disclosed as at August 31, 2023 and November 30, 2022, respectively.

As at August 31, 2023, H&R's interest in ECHO consisted of 235 investment properties totalling approximately 2.8 million square feet and 13 properties under development. Giant Eagle, Inc., a supermarket chain in the United States, is ECHO's largest tenant with 197 locations totalling approximately 1.6 million square feet at H&R's ownership interest with an average lease term to maturity of 9.1 years. Giant Eagle represents approximately 55.9% of revenue earned by ECHO.

During the nine months ended August 31, 2023, ECHO acquired eight properties under development for U.S. $5.0 million, at H&R's ownership interest. During this period, ECHO sold two investment properties totalling 1,398 square feet for U.S. $0.3 million and had two ground leases expire which ECHO did not renew totalling 3,046 square feet, all at H&R's ownership interest. ECHO also transferred two properties under development to investment properties totalling 2,775 square feet for a total value of U.S. $2.2 million, at H&R's ownership interest.

Slate Drive

In November 2020, H&R acquired a 50% ownership interest in 24.6 acres of land in Mississauga, ON, which is expected to be developed into two industrial buildings totalling 249,260 square feet at H&R's ownership interest. Construction is expected to commence on both buildings in 2024.

One industrial property

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

Hercules Project

H&R has a 31.7% non-managing ownership interest in 24.1 acres of land located in Hercules, CA, adjacent to San Pablo Bay, northeast of San Francisco, for the future development of residential rental units. This waterfront, multi-phase, master-planned, in-fill mixed use development surrounds a future intermodal transit centre, including train and ferry service, and is adjacent to an 11-acre future waterfront regional park. The initial investment to purchase the land was approximately U.S. $10.0 million, at H&R's ownership interest. As at September 30, 2023, H&R's equity investment was approximately U.S. $15.7 million.

Phase 2 of the Hercules Project, known as "The Grand at Bayfront", consists of 232 residential rental units including a state-of-the-art fitness centre, bike shop, residents lounge and sporting club. It is situated on 3.0 acres of land and is located north/northeast of Phase 1 of the Hercules Project, which was disposed of by H&R in September 2021. Construction commenced in March 2019 and substantial completion was achieved in June 2022, resulting in the REIT transferring this property from properties under development to investment properties within equity accounted investments.

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

Shoreline

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

Central Pointe

In September 2022, H&R acquired a 50% ownership interest in 8.4 acres of land in Santa Ana, CA for U.S. $26.3 million and obtained a variable rate land loan for U.S. $13.3 million for an 18-month term at H&R's ownership interest. The site is expected to consist of two buildings totalling 325 residential rental units and 319 residential rental units, respectively, as well as 15,131 square feet of retail space. The site is located within one block off the I-5 freeway and within several miles of Downtown Santa Ana, South Coast Metro, Irvine, Anaheim and Orange County.

Sunny Creek

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

Assets and Liabilities Classified as Held for Sale

As at September 30, 2023, H&R had one U.S. office property and one U.S. industrial property classified as held for sale with an aggregate fair value of $43.7 million. As at December 31, 2022, H&R had one Canadian office property, a 50% interest in one Canadian office property and a 50% interest in one Canadian industrial property with an aggregate fair value of $294.0 million and liabilities of $6.3 million classified as held for sale.

Other Assets

(in thousands of Canadian dollars)	September 30, 2023	December 31, 2022
Mortgages receivable	**$168,541**	$169,190
Prepaid expenses and sundry assets	**77,285**	61,212
Accounts receivable - net of provision for expected credit loss of $3,166 (2022 - $4,946)	**6,941**	5,318
Restricted cash	**64,168**	27,444
Derivative instruments	**60,515**	38,161
	$377,450	$301,325

Prepaid expenses and sundry assets increased by approximately $16.1 million from approximately $61.2 million as at December 31, 2022 to approximately $77.3 million as at September 30, 2023 primarily due to prepaid realty taxes and insurance costs.

Restricted cash increased by approximately $36.7 million from approximately $27.4 million as at December 31, 2022 to approximately $64.2 million as at September 30, 2023 primarily due to proceeds from the sale of U.S. properties and proceeds on disposal of a purchase option both held in escrow for property exchanges under Section 1031 of the U.S. Internal Revenue Code.

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

DEBT

	September 30, 2023	December 31, 2022
Debt to total assets per the REIT's Financial Statements(1)	**34.1%**	34.4%
Debt to total assets at the REIT's proportionate share(1)(2)	**43.9%**	44.0%
Unencumbered assets(3) (in thousands of Canadian dollars)	**$4,121,750**	$4,852,067
Unsecured debt(3) (in thousands of Canadian dollars)	**$1,922,635**	$2,296,668
Unencumbered asset to unsecured debt coverage ratio(3)	**2.14**	2.11
Debt to Adjusted EBITDA at the REIT's proportionate share(1)(2)(4)	**8.7**	9.6
Non recourse mortgages to total mortgages ratio	**63.7%**	59.2%
Weighted average interest rate of debt(1)	**4.0%**	3.8%
Weighted average term to maturity of debt (in years)(1)	**2.8**	3.2
Weighted average interest rate of debt at the REIT's proportionate share(1)(2)	**4.1%**	3.9%
Weighted average term to maturity of debt (in years) at the REIT's proportionate share(1)(2)	**3.3**	3.8

(1) Debt includes mortgages payable, debentures payable, unsecured term loans, lines of credit and liabilities classified as held for sale.
(2) These are non-GAAP measures and/or non-GAAP ratios. Refer to the *"Non-GAAP Measures"* section of this MD&A.
(3) Unencumbered assets are investment properties and properties under development without encumbrances for mortgages or lines of credit. Unsecured debt includes debentures payable, unsecured term loans and unsecured lines of credit.
(4) Adjusted EBITDA is based on the trailing 12 months.

Debt Breakdown

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

(in thousands of Canadian dollars)	**September 30, 2023** REIT's Financial Statements	Equity Accounted Investments	REIT's Proportionate Share[1]	December 31, 2022 REIT's Financial Statements	Equity Accounted Investments	REIT's Proportionate Share[1]
Mortgages payable	**$1,578,628**	**$852,025**	**$2,430,653**	$1,613,361	$859,167	$2,472,528
Debentures payable	**1,297,635**	**—**	**1,297,635**	1,546,668	—	1,546,668
Unsecured term loans	**625,000**	**—**	**625,000**	750,000	—	750,000
Lines of credit	**274,386**	**274,218**	**548,604**	12,500	278,043	290,543
	$3,775,649	**$1,126,243**	**$4,901,892**	$3,922,529	$1,137,210	$5,059,739

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

Debentures payable per the REIT's Financial Statements decreased by approximately $249.0 million from approximately $1,546.7 million as at December 31, 2022 to approximately $1,297.6 million as at September 30, 2023 primarily due to the REIT redeeming all of its $250.0 million outstanding 3.416% Series O Senior Debentures in January 2023.

Lines of credit per the REIT's Financial Statements increased by $261.9 million from approximately $12.5 million as at December 31, 2022 to approximately $274.4 million as at September 30, 2023 primarily due to the REIT and CrestPSP securing a new $275.0 million non-revolving secured line of credit in March 2023, at the REIT's proportionate share, for a three year term. The REIT and CrestPSP terminated the previous revolving secured line of credit and H&R used these new proceeds to repay unsecured lines of credit.

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

Debt by Operating Segment

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

(in thousands of Canadian dollars)	**September 30, 2023** REIT's Financial Statements	Equity Accounted Investments	REIT's Proportionate Share[1]
Residential	$1,059,798	$778,111	$1,837,909
Industrial	540,433	—	540,433
Office	236,664	—	236,664
Retail	16,119	348,132	364,251
Corporate	1,922,635	—	1,922,635
	$3,775,649	$1,126,243	$4,901,892

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

Debt to Adjusted EBITDA at the REIT's Proportionate Share

The following table provides a reconciliation of Debt to Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") at the REIT's proportionate share. This is a non-GAAP ratio. Refer to the *"Non-GAAP Measures"* section of this MD&A.

	September 30 2023	December 31 2022
Debt per the REIT's Financial Statements	**$3,775,649**	$3,928,852
Debt - REIT's proportionate share of equity accounted investments	1,126,243	1,137,210
Debt at the REIT's proportionate share	**4,901,892**	5,066,062
(Figures below are for the trailing 12 months)		
Net income (loss) per the REIT's Financial Statements	**(43,126)**	844,823
Net income from equity accounted investments (within equity accounted investments)	(1,152)	(1,132)
Finance costs - operations	267,716	260,288
Fair value adjustments on financial instruments and real estate assets	471,286	(582,538)
(Gain) loss on sale of real estate assets	11,211	(7,493)
Income tax (recovery) expense	(38,057)	101,634
Non-controlling interest	771	967
Adjustments:		
The Bow and 100 Wynford non-cash rental income adjustments	(92,717)	(86,555)
Straight-lining of contractual rent	(13,065)	(6,890)
IFRIC 21 - realty tax adjustment	2,346	—
Fair value adjustment to unit-based compensation	813	2,172
Adjusted EBITDA at the REIT's proportionate share	**$566,026**	$525,276
Debt to Adjusted EBITDA at the REIT's proportionate share	**8.7**	9.6

Debt to Adjusted EBITDA at the REIT's proportionate share has decreased to 8.7x as at September 30, 2023 compared to 9.6x as at December 31, 2022, primarily due to the proceeds on disposal of purchase option as well as proceeds from property dispositions used to repay debt.

OTHER LIABILITIES

Exchangeable Units

As at September 30, 2023, certain of the REIT's subsidiaries had in aggregate 17,974,186 (December 31, 2022 - 17,974,186) exchangeable units outstanding which are puttable instruments where, upon redemption, the REIT has a contractual obligation to issue Units. Holders of all exchangeable units are entitled to receive the economic equivalence of distributions on a per unit amount equal to a per Unit amount provided to holders of Units. These puttable instruments are classified as a liability under IFRS and are measured at fair value through profit and loss. At the end of each reporting period, the fair value is determined by using the quoted price of Units on the TSX as the exchangeable units are exchangeable into Units at the option of the holder. The quoted price as at September 30, 2023 was $9.23 (December 31, 2022 - $12.11) per Unit.

The following number of exchangeable units are issued and outstanding:	Number of Exchangeable Units	Quoted Price of Units	Amounts per the REIT's Financial Statements ($000's)
As at September 30, 2023	**17,974,186**	**$9.23**	**$165,902**
As at December 31, 2022	17,974,186	$12.11	$217,668

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

Deferred Revenue

(a) Bow deferred revenue

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

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

(ii) Sale of 45% interest in the Ovintiv lease

In a separate transaction, in October 2021, the REIT sold 45% of its residual 60% interest in the future income stream derived from the Ovintiv lease to an arm's length third party that was financed by Deutsche Bank Credit Solutions and Direct Lending ("Deutsche Bank"). The REIT received a lump-sum cash payment of $418.0 million as consideration. The net proceeds received of $408.3 million were also recorded as deferred revenue (classified as a liability) and will be amortized over the remaining term of the Ovintiv lease as the 45% lease payments are made to Deutsche Bank and will consist of principal and interest.

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

(b) 100 Wynford deferred revenue

On August 31, 2022, the REIT sold its interest in 100 Wynford Drive, an office property in Toronto, ON ("100 Wynford") to an arm's length third party, Blue Owl Capital, formerly Oak Street ("Blue Owl") for approximately $120.8 million. Although the REIT sold 100 Wynford, the transaction did not meet the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of 100 Wynford for approximately $159.7 million in 2036 or earlier under certain circumstances. As such, the REIT continues to recognize the income producing property whereby the fair value will be adjusted over the remaining life of the Bell lease bringing the value of the real estate asset to nil by the lease maturity in April 2036. The net proceeds received by the REIT on disposition were $118.6 million. These proceeds were recorded as deferred revenue (classified as a liability) and will be amortized over the remaining term of the Bell lease and will consist of principal and interest.

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

	September 30, 2023			December 31
	The Bow	**100 Wynford**	**Total**	2022
Income producing property - fair value[1]	**$985,969**	**$110,824**	**$1,096,793**	$1,127,002
Deferred revenue - net of amortization of $65,434 (2022 - $36,742)	**846,891**	**110,660**	**957,551**	986,243

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

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

	Three months ended September 30			
	The Bow	**100 Wynford**	**2023**	2022
Rental income earned	**$4,243**	**$—**	**$4,243**	$5,084
Rental income earned - **non-cash**	**21,168**	**2,124**	**23,292**	21,718
Revenue reimbursement for property operating costs	**12,344**	**731**	**13,075**	11,769
Property operating costs	**(12,408)**	**(731)**	**(13,139)**	(11,774)
Net operating income	**25,347**	**2,124**	**27,471**	26,797
Accretion finance expense on deferred revenue - **non-cash**	**(13,253)**	**(278)**	**(13,531)**	(13,777)
Fair value adjustment on real estate assets - **non-cash**	**(8,888)**	**(2,556)**	**(11,444)**	(10,885)
Net income (loss)	**3,206**	**(710)**	**2,496**	2,135
Fair value adjustment on real estate assets	**8,888**	**2,556**	**11,444**	10,885
Non-cash rental income and accretion adjustment	**(7,915)**	**(1,846)**	**(9,761)**	(7,941)
FFO[1]	**4,179**	**—**	**4,179**	5,079
Capital expenditures	**—**	**(704)**	**(704)**	(393)
AFFO[1]	**$4,179**	**($704)**	**$3,475**	$4,686

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

	Nine months ended September 30			
	The Bow	**100 Wynford**	**2023**	2022
Rental income earned	**$11,718**	**$—**	**$11,718**	$16,692
Rental income earned - **non-cash**	**63,254**	**6,372**	**69,626**	63,464
Straight-lining of contractual rent	**—**	**—**	**—**	265
Revenue reimbursement for property operating costs	**37,378**	**2,099**	**39,477**	35,226
Property operating costs	**(37,524)**	**(2,132)**	**(39,656)**	(35,240)
Net operating income	**74,826**	**6,339**	**81,165**	80,407
Accretion finance expense on deferred revenue - **non-cash**	**(40,086)**	**(848)**	**(40,934)**	(43,521)
Fair value adjustment on real estate assets - **non-cash**	**(25,961)**	**(6,579)**	**(32,540)**	(26,706)
Net income (loss)	**8,779**	**(1,088)**	**7,691**	10,180
Fair value adjustment on real estate assets	**25,961**	**6,579**	**32,540**	26,706
Non-cash rental income and accretion adjustment	**(23,168)**	**(5,524)**	**(28,692)**	(19,943)
FFO[1]	**11,572**	**(33)**	**11,539**	16,943
Straight-lining of contractual rent	**—**	**—**	**—**	(265)
Capital expenditures	**—**	**(1,036)**	**(1,036)**	(2,723)
AFFO[1]	**$11,572**	**($1,069)**	**$10,503**	$13,955

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

Excluding the non-cash rental income adjustment under IFRS 15, net operating income from the Bow for the three and nine months ended September 30, 2023 was $4.2 million and $11.6 million, respectively. Excluding the non-cash rental income adjustment under IFRS 15, net operating income from 100 Wynford for the three and nine months ended September 30, 2023 was nil.

Deferred Tax Liability

H&R has certain subsidiaries in the United States that are subject to tax on their taxable income at a combined federal and state tax rate of approximately 24.0% in 2023 (2022 - 23.8%).

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

(in thousands of Canadian dollars)	**September 30 2023**	December 31 2022
Deferred tax assets:		
Net operating losses	**$95,559**	$84,420
Accounts payable and accrued liabilities	**571**	1,386
	96,130	85,806
Deferred tax liabilities:		
Investment properties	**399,148**	427,149
Equity accounted investments	**142,259**	141,705
Other assets	**1,583**	—
	542,990	568,854
Deferred tax liability	**($446,860)**	($483,048)

The deferred tax liability relating to the investment properties is derived on the basis that the U.S. investment properties will be sold at their current fair value. The tax liability will only be realized upon an actual disposition of a property that is not subject to a property exchange under Section 1031 of the U.S. Internal Revenue Code. Deferred tax liability decreased by approximately $36.2 million from $483.0 million as at December 31, 2022 to $446.9 million as at September 30, 2023 primarily due to fair value adjustments on real estate assets.

Unitholders' Equity

Unitholders' equity decreased by $87.1 million from approximately $5,487.3 million as at December 31, 2022 to approximately $5,400.1 million as at September 30, 2023, primarily due to distributions to unitholders and Units repurchased and cancelled. This was partially offset by net income during the nine months ended September 30, 2023.

NCIB

On February 9, 2023, the REIT received approval from the TSX for the renewal of its NCIB allowing the REIT to purchase for cancellation up to a maximum of 26,028,249 Units on the open market until the earlier of February 15, 2024 and the date on which the REIT has purchased the maximum number of Units permitted under the NCIB.

During the three months ended September 30, 2023, the REIT purchased and cancelled 1,304,900 Units at a weighted average price of $10.38 per Unit, for a total cost of $13.6 million, representing an approximate 51.7% discount to NAV per Unit (a non-GAAP ratio, refer to the *"Non-GAAP Measures"* section of this MD&A). During the nine months ended September 30, 2023, the REIT purchased and cancelled 4,147,200 Units at a weighted average price of $10.30 per Unit, for a total cost of $42.7 million, representing an approximate 52.1% discount to NAV per Unit (a non-GAAP ratio, refer to the *"Non-GAAP Measures"* section of this MD&A).

During the year ended December 31, 2022, under a previous NCIB, the REIT purchased and cancelled 22,873,800 Units at a weighted average price of $12.99 per Unit, for a total cost of $297.1 million.

Unitholders' Equity per Unit and NAV per Unit (in thousands except for per Unit amounts)	**September 30 2023**	December 31 2022
Unitholders' equity	**$5,400,145**	$5,487,287
Exchangeable units	**165,902**	217,668
Deferred tax liability	**446,860**	483,048
Total	**6,012,907**	6,188,003
Units outstanding	**261,868**	265,885
Exchangeable units outstanding	**17,974**	17,974
Total	**279,842**	283,859
Unitholders' equity per Unit(1)	**$20.62**	$20.64
NAV per Unit(2)	**$21.49**	$21.80

(1) Unitholders' equity per Unit is calculated by dividing unitholders' equity by Units outstanding.
(2) This is a Non-GAAP ratio. Refer to the *"Non-GAAP Measures"* section of this MD&A.

The repurchasing of Units under H&R's NCIB during the nine months ended September 30, 2023 had a $0.16 and $0.17 positive impact on both Unitholders' equity per Unit and NAV per Unit, respectively. Unitholders' equity per Unit and NAV per Unit, without accounting for any Units being repurchased during the nine months ended September 30, 2023, would have been $20.46 and $21.32, respectively. The repurchasing of Units under H&R's NCIB during the year ended December 31, 2022 had a $0.61 and $0.66 positive impact on Unitholders' equity per Unit and NAV per Unit, respectively. Unitholders' equity per Unit and NAV per Unit, without accounting for any Units being repurchased during the year ended December 31, 2022, would have been $20.03 and $21.14, respectively.

RESULTS OF OPERATIONS

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

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
For each U.S. $1.00	**$1.35 CAD**	$1.30 CAD	**$1.35 CAD**	$1.28 CAD

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

	Three months ended September 30, 2023			Three months ended September 30, 2022		
(in thousands of Canadian dollars)	**REIT's Financial Statements**	**Equity accounted investments**	**REIT's proportionate share(1)**	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share(1)
Rentals from investment properties	**$210,446**	**$37,923**	**$248,369**	$213,709	$31,680	$245,389
Property operating costs	**(61,030)**	**(8,383)**	**(69,413)**	(65,342)	(9,469)	(74,811)
Net operating income	**149,416**	**29,540**	**178,956**	148,367	22,211	170,578
Net income (loss) from equity accounted investments	**(11,017)**	**11,051**	**34**	(60,071)	60,292	221
Finance costs - operations	**(54,107)**	**(12,338)**	**(66,445)**	(55,366)	(10,185)	(65,551)
Finance income	**4,068**	**78**	**4,146**	4,410	20	4,430
Proceeds on disposal of purchase option	**30,568**	**—**	**30,568**	—	—	—
Trust (expenses) recoveries	**(2,872)**	**(1,290)**	**(4,162)**	2,633	(638)	1,995
Fair value adjustment on financial instruments	**28,126**	**408**	**28,534**	39,756	460	40,216
Fair value adjustment on real estate assets	**(112,824)**	**(27,109)**	**(139,933)**	(235,192)	(71,976)	(307,168)
Gain (loss) on sale of real estate assets, net of related costs	**(3,479)**	**(141)**	**(3,620)**	(857)	38	(819)
Net income (loss) before income taxes and non-controlling interest	**27,879**	**199**	**28,078**	(156,320)	222	(156,098)
Income tax (expense) recovery	**9,717**	**(6)**	**9,711**	34,824	(13)	34,811
Net income (loss) before non-controlling interest	**37,596**	**193**	**37,789**	(121,496)	209	(121,287)
Non-controlling interest	**—**	**(193)**	**(193)**	—	(209)	(209)
Net income (loss)	**37,596**	**—**	**37,596**	(121,496)	—	(121,496)
Other comprehensive income:						
Items that are or may be reclassified subsequently to net income (loss)	**129,027**	**—**	**129,027**	294,423	—	294,423
Total comprehensive income attributable to unitholders	**$166,623**	**$—**	**$166,623**	$172,927	$—	$172,927

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

Net income (loss) before income taxes and non-controlling interest per the REIT's Financial Statements increased by $184.2 million for the three months ended September 30, 2023 compared to the respective 2022 period primarily due to fair value adjustments on real estate assets, including fair value adjustments on real estate assets within equity accounted investments and proceeds on disposal of purchase option.

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

	Nine months ended September 30, 2023			Nine months ended September 30, 2022		
(in thousands of Canadian dollars)	**REIT's Financial Statements**	**Equity accounted investments**	**REIT's proportionate share(1)**	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share(1)
Rentals from investment properties	**$641,242**	**$112,265**	**$753,507**	$617,805	$92,841	$710,646
Property operating costs	**(241,998)**	**(30,576)**	**(272,574)**	(230,968)	(28,753)	(259,721)
Net operating income	**399,244**	**81,689**	**480,933**	386,837	64,088	450,925
Net income (loss) from equity accounted investments	**139**	**259**	**398**	(6,334)	6,712	378
Finance costs - operations	**(164,022)**	**(36,333)**	**(200,355)**	(164,637)	(28,290)	(192,927)
Finance income	**10,524**	**238**	**10,762**	11,589	28	11,617
Proceeds on disposal of purchase option	**30,568**	**—**	**30,568**	—	—	—
Trust expenses	**(17,331)**	**(3,541)**	**(20,872)**	(11,109)	(2,142)	(13,251)
Fair value adjustment on financial instruments	**74,161**	**329**	**74,490**	68,583	2,429	71,012
Fair value adjustment on real estate assets	**(288,517)**	**(40,376)**	**(328,893)**	770,561	(42,152)	728,409
Gain (loss) on sale of real estate assets, net of related costs	**(6,128)**	**(1,672)**	**(7,800)**	10,654	250	10,904
Net income before income taxes and non-controlling interest	**38,638**	**593**	**39,231**	1,066,144	923	1,067,067
Income tax (expense) recovery	**34,365**	**(45)**	**34,320**	(105,192)	(179)	(105,371)
Net income before non-controlling interest	**73,003**	**548**	**73,551**	960,952	744	961,696
Non-controlling interest	**—**	**(548)**	**(548)**	—	(744)	(744)
Net income	**73,003**	**—**	**73,003**	960,952	—	960,952
Other comprehensive income (loss):						
Items that are or may be reclassified subsequently to net income	**(212)**	**—**	**(212)**	393,445	—	393,445
Total comprehensive income attributable to unitholders	**$72,791**	**$—**	**$72,791**	$1,354,397	$—	$1,354,397

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

Net income before income taxes and non-controlling interest per the REIT's Financial Statements decreased by $1,027.5 million for the nine months ended September 30, 2023 compared to the respective 2022 period primarily due to fair value increases on real estate assets recorded during the nine months ended September 30, 2022, partially offset by proceeds on disposal of purchase option.

NET OPERATING INCOME

Net operating income consists of rentals from investment properties less property operating costs. Management believes that net operating income is a useful measure for investors in assessing the performance of H&R's properties before financing costs and other sources of income and expenditures, which are not directly related to the day-to-day operations of a property. Same-Property net operating income (cash basis), a non-GAAP financial measure, adjusts net operating income (including net operating income from equity accounted investments on a proportionately consolidated basis) to exclude straight-lining of contractual rent and realty taxes accounted for under IFRIC 21. "Same-Property" refers to those properties owned by H&R for the entire 21-month period ended September 30, 2023. It excludes acquisitions, dispositions, and transfers of investment properties to or from properties under development during the 21-month period ended September 30, 2023 (collectively, "Transactions"). Management believes that this measure is useful for investors as it adjusts net operating income (including net operating income from equity accounted investments on a proportionately consolidated basis) for non-cash items which allows investors to better understand period-over-period changes due to occupancy, rental rates, realty taxes and operating costs, before evaluating the changes attributable to Transactions. Furthermore, it is also used as a key input in determining the value of investment properties.

	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Rentals from investment properties	**$210,446**	$213,709	($3,263)	**$641,242**	$617,805	$23,437
Property operating costs	**(61,030)**	(65,342)	4,312	**(241,998)**	(230,968)	(11,030)
Net operating income per the REIT's Financial Statements	**149,416**	148,367	1,049	**399,244**	386,837	12,407
Adjusted for:						
Net operating income from equity accounted investments(1)	**29,540**	22,211	7,329	**81,689**	64,088	17,601
Straight-lining of contractual rent at the REIT's proportionate share(1)	**(1,406)**	(3,388)	1,982	**(9,477)**	(3,302)	(6,175)
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share(1)(2)	**(15,324)**	(12,056)	(3,268)	**14,946**	12,600	2,346
Net operating income (cash basis) from Transactions at the REIT's proportionate share(1)	**(32,491)**	(39,902)	7,411	**(103,841)**	(118,825)	14,984
Same-Property net operating income (cash basis)(1)	**$129,735**	$115,232	$14,503	**$382,561**	$341,398	$41,163

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

(2) The allocation of realty taxes in accordance with IFRIC 21 (in thousands of Canadian dollars) at the REIT's proportionate share by operating segment for the nine months ended September 30, 2023 are as follows: (i) Residential: $9,030; (ii) Industrial: $40; (iii) Office: $3,768; and (iv) Retail: $2,108.

Net operating income per the REIT's Financial Statements increased by $1.0 million for the three months ended September 30, 2023 compared to the respective 2022 period, primarily due to the following: (i) Same-Property net operating income (cash basis) further outlined below; (ii) the impact of IFRIC 21; and (ii) the strengthening of the U.S. dollar. This was offset by the decrease in straight-lining of contractual rent further outlined below and properties sold. Net operating income per the REIT's Financial Statements increased by $12.4 million for the nine months ended September 30, 2023 compared to the respective 2022 period, primarily due to the following: (i) Same-Property net operating income (cash basis) further outlined below; (ii) straight-lining of contractual rent further outlined below; and (ii) the strengthening of the U.S. dollar. This was offset by the impact of IFRIC 21 and properties sold.

Net operating income from equity accounted investments increased by $7.3 million and $17.6 million, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to rental growth at Jackson Park in Long Island City, NY, the strengthening of the U.S. dollar and the lease-up of Shoreline in Long Beach, CA.

Straight-lining of contractual rent at the REIT's proportionate share decreased by $2.0 million for the three months ended September 30, 2023 compared to the respective 2022 period, primarily due to the 6900 Maritz Lease Amendment. Straight-lining of contractual rent at the REIT's proportionate share increased by $6.2 million for the nine months ended September 30, 2023 compared to the respective 2022 period, primarily due to H&R entering into a lease amendment with Bell Canada in Q3 2022 to terminate their lease at 200 Bouchard Boulevard, Montreal, QC in December 2026 ("200 Bouchard Lease Amendment"). The previous lease term would have ended in April 2036. H&R will receive a lease termination fee of approximately $70.0 million in 2026. The terms of the rental payments to 2026 have not changed. IFRS 16, *Leases* ("IFRS 16") requires revenue from leases to be recognized on a straight-line basis over the contractual term of the lease. As a result of this lease amendment, a non-cash adjustment to straight-lining of contractual rent of approximately $3.5 million has been recorded in each quarter since Q3 2022 and will continue to be recorded every quarter until the end of the lease. This was partially offset by the 6900 Maritz Lease Amendment.

Same-Property net operating income (cash basis) increased by $14.5 million and $41.2 million, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to the following: (i) strengthening of the U.S. dollar; (ii) strong rental growth from H&R's residential segment; (iii) strong rental growth and occupancy increases since January 1, 2022 from H&R's industrial segment; (iv) increase in occupancy at River Landing in Miami, FL; (v) higher lease termination fees earned; and (vi) bad debt recovery in Q3 2023.

SEGMENT INFORMATION

Operating Segments and Geographic Locations

H&R has four reportable operating segments (Residential, Industrial, Office and Retail), in two geographical locations (Canada and the United States). The operating segments derive their revenue primarily from rental income from leases. The segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, determined to be the Chief Executive Officer ("CEO") of the REIT. The CEO measures and evaluates the performance of the REIT based on net operating income on a proportionately consolidated basis for the REIT's equity accounted investments.

The Residential segment consists of 24 residential properties in select markets in the United States. As at September 30, 2023, the portfolio comprised of 8,166 residential rental units, at H&R's ownership interest.

The Industrial segment consists of 69 industrial properties in Canada and three properties in the United States comprising 8.7 million square feet, at H&R's ownership interest, with an average lease term to maturity of 4.9 years as at September 30, 2023.

The Office segment, excluding the Bow and 100 Wynford, consists of 18 properties in Canada and four properties in select markets in the United States, aggregating 5.7 million square feet, at H&R's ownership interest, with an average lease term to maturity of 6.9 years as at September 30, 2023. The Office portfolio is leased on a long-term basis to creditworthy tenants, with 80.8% of office revenue from tenants with investment grade credit ratings. With long average lease terms resulting in less than 12.3% of office square feet expiring during the remainder of 2023 and 2024, as well as high credit tenants, this segment tends to generate stable net operating income with gradual growth driven by contractual rental rate increases.

The Retail segment consists of 34 properties in Canada which are mostly grocery-anchored and single tenant properties as well as four automotive-tenanted retail properties and one multi-tenant retail property in the United States. In addition, the Retail segment also holds a 33.1% interest in ECHO, a privately held real estate and development company consisting of 235 properties, which focuses on developing and owning a core portfolio of grocery-anchored shopping centres in the United States. In total, this segment includes 34 properties in Canada and 240 properties in the United States comprising 5.2 million square feet, at H&R's ownership interest, with an average lease term to maturity of 8.4 years as at September 30, 2023.

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

Net Operating Income by Segment

	Net operating income						Occupancy	
	Three months ended September 30			Nine months ended September 30			As at September 30	
(in thousands of Canadian dollars)	**2023**	2022	% Change	**2023**	2022	% Change	**2023**	2022
Operating Segment:								
Residential	**$49,518**	$39,622	25.0%	**$114,681**	$94,546	21.3%	**94.9%**	94.5%
Industrial	**18,776**	16,237	15.6%	**56,049**	46,946	19.4%	**99.2%**	97.2%
Office	**82,678**	87,408	(5.4%)	**236,544**	237,054	(0.2%)	**98.0%**	97.1%
Retail	**27,984**	27,311	2.5%	**73,659**	72,379	1.8%	**95.7%**	94.1%
The REIT's proportionate share[(1)]	**178,956**	170,578	4.9%	**480,933**	450,925	6.7%	**97.0%**	95.8%
Less: equity accounted investments	**(29,540)**	(22,211)	33.0%	**(81,689)**	(64,088)	27.5%	**96.7%**	96.6%
The REIT's Financial Statements	**$149,416**	$148,367	0.7%	**$399,244**	$386,837	3.2%	**97.1%**	95.7%
Geographic Location:								
Canada	**80,325**	84,779	(5.3%)	**246,342**	245,000	0.5%	**98.5%**	97.0%
United States	**98,631**	85,799	15.0%	**234,591**	205,925	13.9%	**95.4%**	94.5%
The REIT's proportionate share[(1)]	**178,956**	170,578	4.9%	**480,933**	450,925	6.7%	**97.0%**	95.8%
Less: equity accounted investments	**(29,540)**	(22,211)	33.0%	**(81,689)**	(64,088)	27.5%	**96.7%**	96.6%
The REIT's Financial Statements	**$149,416**	$148,367	0.7%	**$399,244**	$386,837	3.2%	**97.1%**	95.7%

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

Net operating income across all operating segments was positively impacted by the strengthening of the U.S. dollar for the three and nine months ended September 30, 2023 compared to the respective 2022 periods. The following explanations for changes in net operating income are in addition to the impact of foreign exchange.

Net operating income from residential properties increased by 25.0% and 21.3%, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to strong rental growth.

Net operating income from industrial properties increased by 15.6% and 19.4%, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to an increase in occupancy including the lease commencement of 140 Speirs Giffen Avenue and 34 Speirs Giffen Avenue in Caledon, ON which commenced in December 2022 and January 2023, respectively, as well as strong rental rate growth. Net operating income from industrial properties further increased for the nine months ended September 30, 2023 compared to the respective 2022 period, due to a $0.9 million lease termination fee received from a U.S. industrial tenant in Q2 2023.

Net operating income from office properties decreased by 5.4% and 0.2%, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to properties sold, partially offset by the 6900 Maritz Lease Termination Payment, and a bad debt recovery in Q3 2023. Net operating income from office properties further increased for the nine months ended September 30, 2023 compared to the respective 2022 period, due to the 200 Bouchard Lease Amendment.

Net operating income from retail properties increased by 2.5% and 1.8%, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to an increase in occupancy at River Landing in Miami, FL, partially offset by a decrease in net operating income due to properties sold.

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

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

	Same-Property net operating income (cash basis)[(1)]						**Occupancy (Same-Property)**	
	Three months ended September 30			Nine months ended September 30			As at September 30	
(in thousands of Canadian dollars)	**2023**	2022	% Change	**2023**	2022	% Change	**2023**	2022
Operating Segment:								
Residential	**$38,836**	$32,492	19.5%	**$120,295**	$99,204	21.3%	**95.2%**	95.0%
Industrial	**17,408**	15,663	11.1%	**51,936**	45,832	13.3%	**99.3%**	99.5%
Office	**49,247**	44,793	9.9%	**140,124**	131,766	6.3%	**98.1%**	99.1%
Retail	**24,244**	22,284	8.8%	**70,206**	64,596	8.7%	**95.7%**	93.7%
The REIT's proportionate share[(1)] (page 29)	**$129,735**	$115,232	12.6%	**$382,561**	$341,398	12.1%	**97.1%**	97.0%
Geographic Location:								
Ontario	**34,493**	30,194	14.2%	**96,419**	89,147	8.2%	**98.5%**	99.1%
Alberta	**7,962**	7,770	2.5%	**23,802**	22,627	5.2%	**98.6%**	98.7%
Other Canada	**6,816**	6,423	6.1%	**20,007**	19,002	5.3%	**98.9%**	99.5%
Total – Canada	**49,271**	44,387	11.0%	**140,228**	130,776	7.2%	**98.6%**	99.1%
United States	**80,464**	70,845	13.6%	**242,333**	210,622	15.1%	**95.6%**	94.9%
The REIT's proportionate share[(1)] (page 29)	**$129,735**	$115,232	12.6%	**$382,561**	$341,398	12.1%	**97.1%**	97.0%
United States in U.S. dollars:								
Residential	**28,767**	24,974	15.2%	**89,107**	77,503	15.0%	**95.2%**	95.0%
Industrial	**753**	713	5.6%	**2,857**	2,108	35.5%	**100.0%**	100.0%
Office	**16,463**	15,988	3.0%	**48,497**	47,884	1.3%	**100.0%**	100.0%
Retail	**13,620**	12,813	6.3%	**39,044**	37,053	5.4%	**94.2%**	91.0%
U.S. total in U.S. dollars	**$59,603**	$54,488	9.4%	**$179,505**	$164,548	9.1%	**95.6%**	94.9%

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

Same-Property net operating income (cash basis) across all operating segments was positively impacted by the strengthening of the U.S. dollar for the three and nine months ended September 30, 2023 compared to the respective 2022 periods. The following explanations for changes in Same-Property net operating income (cash basis) are in addition to the impact of foreign exchange.

Same-Property net operating income (cash basis) from residential properties in U.S. dollars increased by 15.2% and 15.0%, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to strong rental growth of 8.1% and 11.2%, respectively, partially offset by an increase in property operating costs of 0.1% and 6.3%, respectively.

Same-Property net operating income (cash basis) from industrial properties increased by 11.1% and 13.3%, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to strong rental rate growth and occupancy increases since January 1, 2022. Same-Property net operating income (cash basis) from industrial properties further increased for the nine months ended September 30, 2023 compared to the respective 2022 period, due to a $0.9 million lease termination fee received from a U.S. industrial tenant in Q2 2023.

Same-Property net operating income (cash basis) from office properties increased by 9.9% and 6.3%, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to the 6900 Maritz Lease Termination Payment and a bad debt recovery in Q3 2023.

Same-Property net operating income (cash basis) from retail properties increased by 8.8% and 8.7%, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to an increase in occupancy at River Landing in Miami, FL.

NET INCOME, FFO AND AFFO FROM EQUITY ACCOUNTED INVESTMENTS[1]

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

	Three months ended September 30		Nine months ended September 30	
(in thousands of Canadian dollars)	**2023**	2022	**2023**	2022
Net income (loss) from equity accounted investments[1]	**($11,017)**	($60,071)	**$139**	($6,334)
Realty taxes in accordance with IFRIC 21	**(1,183)**	(1,225)	**1,184**	1,316
Fair value adjustments on financial instruments and real estate assets	**26,701**	71,516	**40,047**	39,723
(Gain) loss on sale of real estate assets	**141**	(38)	**1,672**	(250)
Notional interest capitalization[2]	**—**	—	**—**	960
FFO from equity accounted investments[1]	**14,642**	10,182	**43,042**	35,415
Straight-lining of contractual rent	**(345)**	12	**(526)**	(70)
Rent amortization of tenant inducements	**270**	272	**836**	802
Capital expenditures	**(899)**	(1,334)	**(2,967)**	(3,067)
Leasing expenses and tenant inducements	**(414)**	(267)	**(1,191)**	(1,037)
AFFO from equity accounted investments[1]	**$13,254**	$8,865	**$39,194**	$32,043

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

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

Net income (loss) from equity accounted investments increased by $49.1 million for the three months ended September 30, 2023 compared to the respective 2022 period primarily due to fair value adjustments on real estate assets. Net income (loss) from equity accounted investments increased by $6.5 million for the nine months ended September 30, 2023 compared to the respective 2022 period primarily due to an increase in net operating income, partially offset by higher finance costs.

FFO from equity accounted investments increased by $4.5 million and $7.6 million, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods primarily due to rental growth at Jackson Park in Long Island City, NY.

INCOME AND EXPENSE ITEMS

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

Finance Costs	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Finance costs – operations:						
Contractual interest on mortgages payable	**($15,441)**	($16,343)	$902	**($46,777)**	($51,365)	$4,588
Contractual interest on debentures payable	**(10,899)**	(13,051)	2,152	**(32,879)**	(38,728)	5,849
Contractual interest on unsecured term loans	**(7,103)**	(4,526)	(2,577)	**(22,253)**	(13,461)	(8,792)
Bank interest and charges on lines of credit	**(5,455)**	(4,511)	(944)	**(14,947)**	(7,602)	(7,345)
Effective interest rate accretion	**(1,212)**	(1,024)	(188)	**(3,434)**	(3,155)	(279)
Accretion finance expense on deferred revenue	**(13,531)**	(13,777)	246	**(40,934)**	(43,521)	2,587
Exchangeable unit distributions	**(2,696)**	(2,484)	(212)	**(8,088)**	(7,324)	(764)
	(56,337)	(55,716)	(621)	**(169,312)**	(165,156)	(4,156)
Capitalized interest	**2,230**	350	1,880	**5,290**	519	4,771
	(54,107)	(55,366)	1,259	**(164,022)**	(164,637)	615
Finance income	**4,068**	4,410	(342)	**10,524**	11,589	(1,065)
Fair value adjustment on financial instruments	**28,126**	39,756	(11,630)	**74,161**	68,583	5,578
	($21,913)	($11,200)	($10,713)	**($79,337)**	($84,465)	$5,128

The decrease in contractual interest on mortgages payable of $0.9 million and $4.6 million, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods is primarily due to mortgages repaid.

The decrease in contractual interest on debentures payable of $2.2 million and $5.8 million, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods is primarily due to the repayment of the $250.0 million Series O Senior Debentures in January 2023.

The increase in contractual interest on unsecured term loans of $2.6 million and $8.8 million, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods is primarily due to H&R obtaining two new $125.0 million unsecured term loans in November 2022, of which one was repaid in August 2023 prior to the original maturity date of November 30, 2024.

The increase in bank interest and charges on lines of credit of $0.9 million and $7.3 million respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods is primarily due to H&R obtaining a new $275.0 million non-revolving secured credit facility in March 2023 as well as rising interest rates, partially offset by lower borrowings on H&R's revolving unsecured operating lines of credit.

The accretion finance expense on deferred revenue of $13.5 million and $40.9 million, respectively, for the three and nine months ended September 30, 2023 is due to the proceeds from the sale of the Bow and 100 Wynford being amortized over the terms of their respective leases as both sale transactions did not meet the criteria of a transfer of control under IFRS 15. Refer to the *"Other Liabilities - Deferred Revenue"* section of this MD&A for further information on the Bow and 100 Wynford sale transactions.

The increase in capitalized interest of $1.9 million and $4.8 million, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods is primarily due to two U.S. residential developments and two industrial developments currently under construction.

The fair value adjustment on financial instruments of $28.1 million and $74.2 million, respectively, for the three and nine months ended September 30, 2023 is due to: (i) the unrealized gain on fair value of exchangeable units of $18.3 million and $51.8 million, respectively, which are fair valued at the end of each reporting period based on the quoted price of Units on the TSX; and (ii) an unrealized gain on derivative instruments of $9.8 million and $22.4 million, respectively, which is further described in the *"Derivative Instruments"* section of this MD&A.

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

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

Trust (expenses) recoveries	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
General expenses	**($7,662)**	($6,861)	($801)	**($30,012)**	($20,345)	($9,667)
Third party property management fees earned	**3,454**	2,876	578	**11,082**	8,855	2,227
Unit-based compensation expense	**(1,690)**	(1,682)	(8)	**(4,064)**	(3,923)	(141)
Fair value adjustment to unit-based compensation	**3,026**	8,300	(5,274)	**5,663**	4,304	1,359
Trust (expenses) recoveries	**($2,872)**	$2,633	($5,505)	**($17,331)**	($11,109)	($6,222)

General expenses increased by $9.7 million for the nine months ended September 30, 2023 compared to the respective 2022 period, primarily due to $4.3 million relating to the Support Agreement with K2 and severance costs incurred in Q2 2023.

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

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

Third party property management fees earned increased by $0.6 million and $2.2 million for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to fees earned from property management services provided for H&R's industrial portfolio as well as H&R retaining property management services on recent office property dispositions.

Unit-based compensation consists of the following two compensation plans: the REIT's Unit Option Plan and Incentive Unit Plan. Both plans are considered to be cash-settled under IFRS 2, *Share-based Payments* ("IFRS 2") and as a result, are measured at each reporting period and settlement date at their fair value as defined by IFRS 2 based on the quoted price of Units on the TSX. The fair value adjustment to unit-based compensation consists of the difference between the grant price and the quoted price of Units on the TSX at each reporting period.

Fair Value Adjustment on Real Estate Assets	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Operating Segment:						
Residential	**($25,976)**	($71,394)	$45,418	**($122,028)**	$441,869	($563,897)
Industrial	**14,354**	(14,442)	28,796	**8,117**	170,846	(162,729)
Office	**(98,979)**	(195,720)	96,741	**(210,403)**	(155,722)	(54,681)
Retail	**(29,332)**	(25,612)	(3,720)	**(42,579)**	(23,146)	(19,433)
Land and properties under development	**—**	—	—	**38,000**	294,562	(256,562)
Fair value adjustment on real estate assets per the REIT's proportionate share(1)	**(139,933)**	(307,168)	167,235	**(328,893)**	728,409	(1,057,302)
Less: equity accounted investments	**27,109**	71,976	(44,867)	**40,376**	42,152	(1,776)
Fair value adjustment on real estate assets per the REIT's Financial Statements	**($112,824)**	($235,192)	$122,368	**($288,517)**	$770,561	($1,059,078)

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

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

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

Land and Properties under Development:

H&R currently has two industrial properties under development in Mississauga, ON, which are expected to be completed in Q4 2023 and Q1 2024, respectively. Both of these properties under development were pre-leased at market rents in Q1 2023, and H&R recorded a $38.0 million fair value adjustment to reflect the increased value associated with these leases.

Gain (loss) on Sale of Real Estate Assets	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Gain (loss) on sale of real estate assets	**($3,479)**	($857)	($2,622)	**($6,128)**	$10,654	($16,782)

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

During the nine months ended September 30, 2023, the REIT sold one Canadian office property, one U.S. office property, a 50% interest in one Canadian office property, four Canadian retail properties, one U.S. retail property and a 50% interest in two industrial properties and recognized a loss on sale of real estate assets of ($6.1) million. During the nine months ended September 30, 2022, the REIT sold one Canadian office property, two Canadian retail properties, seven U.S. retail properties, a 50% interest in one industrial property and one U.S. residential property and recognized a gain on sale of real estate assets of $10.7 million.

Income tax (Expense) Recovery	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Income tax computed at the Canadian statutory rate of nil applicable to H&R for 2023 and 2022	**$—**	$—	$—	**$—**	$—	$—
Current U.S. income tax expense	**(358)**	(322)	(36)	**(1,557)**	(988)	(569)
Deferred income tax (expense) recovery applicable to U.S. Holdco	**10,075**	35,146	(25,071)	**35,922**	(104,204)	140,126
Income tax (expense) recovery in the determination of net income (loss)	**$9,717**	$34,824	($25,107)	**$34,365**	($105,192)	$139,557

H&R is generally subject to tax in Canada under the *Income Tax Act* (Canada) ("Tax Act") with respect to its taxable income each year, except to the extent such taxable income is paid or made payable to unitholders and deducted by H&R for tax purposes. H&R's current income tax expense is primarily due to U.S. state taxes.

H&R's deferred income tax is recorded in respect of H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco") and arose due to taxable temporary differences between the tax and accounting bases of assets and liabilities net of the benefit of unused tax credits and losses that are available to be carried forward to future tax years to the extent that it is probable that the unused tax credits and losses can be realized. Deferred income tax (expense) recovery changed by ($25.1) million and $140.1 million, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to fair value adjustments on real estate assets.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the assets are realized or the liabilities are settled, based on the tax laws that have been enacted or substantively enacted at the statement of financial position date. Deferred income tax relating to items recognized in equity are also recognized in equity. As at September 30, 2023, H&R had net deferred tax liabilities of $446.9 million (December 31, 2022 - $483.0 million), primarily related to taxable temporary differences between the tax and accounting bases of U.S. real estate assets.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

H&R presents its consolidated FFO and AFFO calculations in accordance with the January 2022 guidance in the REALPAC Funds Real Property Association of Canada's (REALPAC) *White Paper on Funds From Operations and Adjusted Funds From Operations for IFRS,* except for the Bow and 100 Wynford non-cash rental and accretion adjustments which are further explained under the *"Non-GAAP Measures"* section of this MD&A.

FFO and AFFO	Three months ended September 30		Nine months ended September 30	
(in thousands of Canadian dollars except per Unit amounts)	**2023**	2022	**2023**	2022
Net income (loss) per the REIT's Financial Statements	**$37,596**	($121,496)	**$73,003**	$960,952
Realty taxes in accordance with IFRIC 21	**(14,141)**	(10,831)	**13,762**	11,284
FFO adjustments from equity accounted investments (page 33)	**25,659**	70,253	**42,903**	41,749
Exchangeable unit distributions	**2,696**	2,484	**8,088**	7,324
Fair value adjustments on financial instruments and real estate assets	**84,698**	195,436	**214,356**	(839,144)
Fair value adjustment to unit-based compensation	**(3,026)**	(8,300)	**(5,663)**	(4,304)
(Gain) loss on sale of real estate assets, net of related costs	**3,479**	857	**6,128**	(10,654)
Deferred income tax expense (recoveries) applicable to U.S. Holdco	**(10,075)**	(35,146)	**(35,922)**	104,204
Incremental leasing costs	**570**	607	**1,738**	1,841
The Bow and 100 Wynford non-cash rental income and accretion adjustments	**(9,761)**	(7,941)	**(28,692)**	(19,943)
FFO(1)	**$117,695**	$85,923	**$289,701**	$253,309
Straight-lining of contractual rent	**(1,061)**	(3,400)	**(8,951)**	(3,232)
Rent amortization of tenant inducements	**1,131**	1,162	**3,384**	3,482
Capital expenditures	**(13,148)**	(7,884)	**(30,287)**	(19,851)
Leasing expenses and tenant inducements	**(1,464)**	(1,178)	**(3,767)**	(3,642)
Incremental leasing costs	**(570)**	(607)	**(1,738)**	(1,841)
AFFO adjustments from equity accounted investments (page 33)	**(1,388)**	(1,317)	**(3,848)**	(3,372)
AFFO(1)	**$101,195**	$72,699	**$244,494**	$224,853
Weighted average number of Units and exchangeable units (in thousands of Units)(2)	**280,205**	284,734	**282,480**	293,115
Diluted weighted average number of Units and exchangeable units (in thousands of Units)(2)(3)	**281,143**	285,751	**283,418**	294,132
FFO per basic Unit(4)	**$0.420**	$0.302	**$1.026**	$0.864
FFO per diluted Unit(4)	**$0.419**	$0.301	**$1.022**	$0.861
AFFO per basic Unit(4)	**$0.361**	$0.255	**$0.866**	$0.767
AFFO per diluted Unit(4)	**$0.360**	$0.254	**$0.863**	$0.764
Cash Distributions per Unit	**$0.150**	$0.137	**$0.450**	$0.402
Payout ratio as a % of FFO(4)	**35.7%**	45.4%	**43.9%**	46.5%
Payout ratio as a % of AFFO(4)	**41.6%**	53.7%	**52.0%**	52.4%

(1) These are non-GAAP measures. Refer to the *"Non-GAAP Measures"* section of this MD&A.
(2) For the three and nine months ended September 30, 2023, included in the weighted average and diluted weighted average number of Units are exchangeable units of 17,974,186. For the three and nine months ended September 30, 2022, included in the weighted average and diluted weighted average number of Units are exchangeable units of 18,130,185 and 18,156,897, respectively.
(3) For the three and nine months ended September 30, 2023, included in the determination of diluted FFO and AFFO with respect to H&R's Incentive Unit Plan are 938,095 Units. For the three and nine months ended September 30, 2022, included in the determination of diluted FFO and AFFO with respect to H&R's Incentive Unit Plan are 1,016,994 Units.
(4) These are non-GAAP ratios. Refer to the *"Non-GAAP Measures"* section of this MD&A.

Included in FFO and AFFO for the three and nine months ended September 30, 2023 is $30.6 million, equating to $0.109 per Unit and $0.108 per Unit, respectively, relating to the proceeds on disposal of purchase option. Included in FFO and AFFO for the nine months ended September 30, 2023 is $4.3 million, equating to $0.015 per Unit, relating to the Support Agreement with K2 and severance costs.

FFO increased by $31.8 million and $36.4 million, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to the proceeds on disposal of purchase option and an increase in net operating income partially offset by higher finance costs and trust expenses.

AFFO increased by $28.5 million and $19.6 million, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to the increase in FFO noted above, partially offset by higher capital expenditures, leasing expenses and tenant inducements.

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

	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Lease termination fees	**$2,584**	$2,300	$284	**$4,340**	$2,316	$2,024
Adjustment to straight-lining of contractual rent	**(1,754)**	—	(1,754)	**(939)**	392	(1,331)
Bad debt recovery (expense)	**264**	(962)	1,226	**(855)**	(2,077)	1,222
Proceeds on disposal of purchase option	**30,568**	—	30,568	**30,568**	—	30,568
Support Agreement with K2 and severance costs	**—**	—	—	**(4,255)**	—	(4,255)
	$31,662	$1,338	$30,324	**$28,859**	$631	$28,228

Excluding the above items, FFO would have been $86.0 million for the three months ended September 30, 2023 (Q3 2022 - $84.6 million) and $0.307 per basic Unit (Q3 2022 - $0.297 per basic Unit). For the nine months ended September 30, 2023, FFO would have been $260.8 million (Q3 2022 - $252.7 million) and $0.923 per basic Unit (Q3 2022 - $0.862 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:

	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Residential:						
Capital expenditures	**$8,435**	$6,443	$1,992	**$20,955**	$14,120	$6,835
Leasing expenses and tenant inducements	**—**	—	—	**—**	—	—
Industrial:						
Capital expenditures	**1,809**	267	1,542	**3,593**	427	3,166
Leasing expenses and tenant inducements	**1,439**	151	1,288	**3,491**	1,656	1,835
Office:						
Capital expenditures	**3,182**	1,128	2,054	**6,259**	5,482	777
Leasing expenses and tenant inducements	**38**	1,022	(984)	**687**	1,320	(633)
Retail:						
Capital expenditures	**621**	1,380	(759)	**2,447**	2,889	(442)
Leasing expenses and tenant inducements	**401**	272	129	**780**	1,703	(923)
Total at the REIT's proportionate share[1]	**15,925**	10,663	5,262	**38,212**	27,597	10,615
Less: equity accounted investments	**(1,313)**	(1,601)	288	**(4,158)**	(4,104)	(54)
Total per the REIT's Financial Statements[2]	**$14,612**	$9,062	$5,550	**$34,054**	$23,493	$10,561

(1) The REIT's proportionate share is a non-GAAP measure defined in the *"Non-GAAP Measures"* section of this MD&A.
(2) Equal to the sum of capital expenditures and leasing expenses and tenant inducements per the REIT's Financial Statements.

Capital expenditures from the Residential segment for the three and nine months ended September 30, 2023 included the following: (i) $1.3 million and $3.6 million, respectively, relating to value-add and repositioning initiatives undertaken on two of H&R's oldest residential rental communities, which include unit upgrades, clubhouse upgrades and amenity additions; (ii) $1.6 million and $3.1 million relating to asset preservation projects including landscaping, safety and liability, as well as a roof replacement at one of H&R's residential properties; (iii) $0.6 million and $2.2 million, respectively, relating to clubhouse upgrades undertaken at two of H&R's Florida properties; and (iv) $0.1 million and $0.7 million, respectively, relating to revenue enhancing projects across a handful of H&R's residential properties. In addition, the nine months ended September 30, 2023 included $0.6 million relating to energy efficiency projects.

Leasing expenses and tenant inducements for the three and nine months ended September 30, 2023 included $1.2 million in leasing expenses relating to a new 10-year lease at an Oakville, ON industrial property.

Capital expenditures from the Office segment for the three and nine months ended September 30, 2023 included the following: (i) $1.2 million and $1.3 million, respectively, relating to a building automation system replacement at a Houston, TX office property; and (ii) $0.4 million and $1.6 million, respectively, relating to refurbishments of all washrooms at a Calgary, AB office property.

LIQUIDITY AND CAPITAL RESOURCES

Cash Distributions

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

(in thousands of Canadian dollars)	**Three months ended September 30 2023**	**Nine months ended September 30 2023**	Year ended December 31 2022	Year ended December 31 2021
Cash provided by operations	**$109,245**	**$241,659**	$255,054	$452,107
Net income	**37,596**	**73,003**	844,823	597,907
Distributions	**39,301**	**118,905**	159,785	227,312
Excess cash provided by operations over total distributions	**69,944**	**122,754**	95,269	224,795
Excess (shortfall) of net income over total distributions	**(1,705)**	**(45,902)**	685,038	370,595

Cash provided by operations exceeded distributions for all periods noted above. Distributions exceeded net income for the three and nine months ended September 30, 2023 primarily due to non-cash items. Non-cash items relating to the fair value adjustments on financial instruments, real estate assets and unit-based compensation, gain (loss) on sale of real estate assets and deferred income taxes (recoveries) are deducted from or added to net income and have no impact on cash available to pay distributions.

Major Cash Flow Components

	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Cash and cash equivalents, beginning of period	**$53,744**	$71,691	($17,947)	**$76,887**	$124,141	($47,254)
Cash flows from operations	**109,245**	82,065	27,180	**241,659**	180,313	61,346
Cash flows from investing	**187,803**	206,528	(18,725)	**150,470**	203,180	(52,710)
Cash flows used for financing	**(204,921)**	(294,475)	89,554	**(323,145)**	(441,825)	118,680
Cash and cash equivalents, end of period	**$145,871**	$65,809	$80,062	**$145,871**	$65,809	$80,062

Cash flows from operations increased by $27.2 million and $61.3 million, respectively, for the three and nine months ended September 30, 2023 compared to the respective 2022 periods, primarily due to the proceeds on disposal of purchase option. Cash flows from operations further increased for the nine months ended September 30, 2023 compared to the respective 2022 period due to non-cash working capital.

Cash flows from investing decreased by approximately $18.7 million for the three months ended September 30, 2023 compared to the respective 2022 period, primarily due to higher mortgage receivable repayments in Q3 2022 and additional cash held in escrow relating to Section 1031 property exchanges. This was partially offset by higher proceeds on disposition of real estate assets. Cash flows from investing decreased by approximately $52.7 million for the nine months ended September 30, 2023 compared to the respective 2022 period, primarily due to cash received from the sale of Primaris REIT units in Q1 2022.

Cash flows used for financing increased by approximately $89.6 million for the three months ended September 30, 2023 compared to the respective 2022 period, primarily due to lower debt repayments, net of new debt and less cash used for Unit repurchases. Cash flows used for financing increased by approximately $118.7 million for the nine months ended September 30, 2023 compared to the respective 2022 period, primarily due to less cash used for Unit repurchases and a $0.05 per Unit special distribution declared in December 2022 and paid in January 2023 compared to a $0.10 per Unit special distribution declared in December 2021 and paid in January 2022. This was partially offset by higher debt repayments, net of new debt.

Funding of Future Commitments and Debt Profile

As at September 30, 2023, H&R had cash and cash equivalents of $145.9 million, $918.4 million available under its unused lines of credit and an unencumbered property pool of approximately $4.1 billion.

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

Year	Number of Properties	Mortgage Debt due on Maturity ($000's)	Weighted Average Interest Rate on Maturity	Fair Value of Real Estate Assets ($000's)	Loan to Value
2023[1]	5	$123,814	2.9%	$447,492	28%
2024	3	36,872	3.9%	114,300	32%
2025	8	109,166	3.9%	278,474	39%
2026	5	50,637	4.3%	192,300	26%
2027	10	426,911	4.1%	1,181,934	36%
2028	12	489,809	4.1%	1,153,231	42%
	43	$1,237,209	4.0%	$3,367,731	37%

(1) For the balance of the year.

The mortgages outstanding as at September 30, 2023 bear interest at a weighted average rate of 4.0% (December 31, 2022 - 4.0%) and mature between 2023 and 2032 (December 31, 2022 – mature between 2023 and 2032). The weighted average term to maturity of the REIT's mortgages is 3.9 years (December 31, 2022 - 4.6 years). As at September 30, 2023, the non-recourse mortgages to total mortgages ratio was 63.7% (December 31, 2022 - 59.2%).

					September 30 2023	December 31 2022
Unsecured Senior Debentures (in thousands of Canadian Dollars)	**Maturity**	**Contractual Interest Rate**	**Effective Interest Rate**	**Principal Amount**	**Carrying Value**	Carrying Value
Senior Debentures						
Series O Senior Debentures	January 23, 2023[1]	3.42%	3.44%	$—	**$—**	$249,980
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	**349,859**	349,548
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	**399,204**	398,892
Series R Senior Debentures	June 2, 2026	2.91%	3.00%	250,000	**249,388**	249,229
Series S Senior Debentures	February 19, 2027	2.63%	2.72%	300,000	**299,184**	299,019
		3.33%	3.42%	$1,300,000	**$1,297,635**	$1,546,668

(1) In January 2023, the REIT repaid all of its outstanding Series O Senior Debentures upon maturity for a cash payment of $250.0 million.

Unsecured Term Loans (in thousands of Canadian Dollars)	Maturity Date	**September 30 2023**	December 31 2022
H&R unsecured term loan #1(1)		**$—**	$125,000
H&R unsecured term loan #2(2)	March 7, 2025(5)	**250,000**	250,000
H&R unsecured term loan #3(3)	November 30, 2025	**125,000**	125,000
H&R unsecured term loan #4(4)	January 6, 2026	**250,000**	250,000
		$625,000	$750,000

(1) In August 2023, the REIT repaid all of this unsecured term loan of $125.0 million, prior to the original maturity date of November 30, 2024.
(2) The REIT entered into an interest rate swap to fix the interest rate at 3.17% per annum. The swap matures on May 7, 2030.
(3) The REIT entered into an interest rate swap to fix the interest rate at 5.19% per annum. The swap matures on September 29, 2027.
(4) The REIT entered into an interest rate swap to fix the interest rate at 4.16% per annum. The swap matures on January 6, 2026.
(5) In August 2023, the $250.0 million unsecured term loan agreement was amended to extend the maturity date from March 7, 2024 to March 7, 2025.

Lines of Credit (in thousands of Canadian Dollars)	Maturity Date	Total Facility	Amount Drawn	Outstanding Letters of Credit	Available Balance
Revolving unsecured operating lines of credit:					
H&R revolving unsecured line of credit	September 20, 2024(2)	$150,000	$—	$—	$150,000
H&R revolving unsecured line of credit	December 14, 2027(3)	750,000	—	(1,873)	748,127
H&R revolving unsecured letter of credit facility		60,000	—	(39,706)	20,294
Sub-total		960,000	—	(41,579)	918,421
Non-revolving secured operating line of credit(1)					
H&R and CrestPSP non-revolving secured line of credit	March 14, 2026	274,386	(274,386)	—	—
September 30, 2023		**$1,234,386**	**($274,386)**	**($41,579)**	**$918,421**
December 31, 2022		$985,000	($12,500)	($42,148)	$930,352

(1) Secured by certain investment properties.
(2) In August 2023, the $150.0 million revolving unsecured line of credit agreement was amended to extend the maturity date from September 20, 2023 to September 20, 2024.
(3) In September 2023, the $750.0 million revolving unsecured line of credit agreement was amended to extend the maturity date from December 14, 2026 to December 14, 2027.

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. There were no U.S. dollar denominated amounts included in lines of credit as at September 30, 2023 and December 31, 2022.

Contractual Obligations

The following is a summary as at September 30, 2023 of material contractual obligations including payments due for the next five years and thereafter:

	Payments Due by Period					
Contractual Obligations[1] (in thousands of Canadian dollars)	2023[2]	2024	2025	2026-2027	2028 and thereafter	Total
Mortgages payable[3]	$134,823	$77,399	$143,964	$534,208	$695,280	$1,585,674
Senior debentures	—	350,000	400,000	550,000	—	1,300,000
Unsecured term loans	—	—	375,000	250,000	—	625,000
Lines of credit	—	—	—	274,386	—	274,386
Lease liability[4]	313	1,265	1,290	2,657	186,798	192,323
Committed Developments[5]	52,063	116,017	—	—	—	168,080
Total contractual obligations	$187,199	$544,681	$920,254	$1,611,251	$882,078	$4,145,463

(1) The amounts in the above table are the principal amounts due under the contractual agreements.
(2) For the balance of the year.
(3) Non-recourse mortgages to total mortgages ratio is 63.7%.
(4) Corresponds to a right-of-use asset in a leasehold interest.
(5) Committed Developments includes West Love, Midtown, 1965 Meadowvale Blvd. and 1925 Meadowvale Blvd.

Capital Resources

As at September 30, 2023, H&R had cash and cash equivalents of $145.9 million and amounts available under its lines of credit totalling $918.4 million. Subject to market conditions, management expects to be able to meet all of the REIT's ongoing contractual obligations. As at September 30, 2023, the REIT was not in default or arrears on any of its obligations including interest or principal payments on debt and any debt covenant. As at September 30, 2023, H&R had 84 unencumbered properties (including properties under development), with a fair value of approximately $4.1 billion. Also, due to H&R's 27 year history and management's conservative strategy of securing long-term financing on individual properties, H&R has numerous other properties with very low loan to value ratios. As at September 30, 2023, H&R had 10 properties valued at approximately $445.1 million which are encumbered with mortgages totalling $106.7 million. In this pool of assets, the average loan to value ratio is 24.0%, the minimum loan to value ratio is 2.7% and the maximum loan to value ratio is 28.0%. The weighted average remaining term to maturity of this pool of mortgages is 5.8 years.

Credit Rating

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

DBRS has confirmed that H&R has a credit rating of BBB with a Stable trend as at September 30, 2023. A credit rating of BBB by DBRS is generally an indication of adequate credit quality, where the capacity for payment of financial obligations is considered acceptable, however the entity may be vulnerable to future events. A credit rating of BBB or higher is an investment grade rating. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be withdrawn or revised by DBRS at any time. The credit rating is reviewed periodically by DBRS.

OFF-BALANCE SHEET ITEMS

In the normal course of operations, H&R has issued letters of credit in connection with developments, financings, operations and acquisitions. As at September 30, 2023, H&R has outstanding letters of credit totalling $41.6 million (December 31, 2022 - $42.1 million), including $20.0 million (December 31, 2022 - $20.7 million) which has been pledged as security for certain mortgages payable. The letters of credit may be secured by certain investment properties.

H&R has co-owners and partners in various projects. As a general rule, H&R does not provide guarantees or indemnities for these co-owners and partners pursuant to property acquisitions because should such guarantees be provided, recourse would be available against H&R in the event of a default of the co-owners and partners. In such case, H&R would have a claim against the underlying real estate investment. However, in certain circumstances, subject to compliance with H&R's Declaration of Trust and the determination by management that the fair value of the co-owners' or partners' investment is greater than the mortgages payable for which H&R has provided guarantees, such guarantees will be provided. As at September 30, 2023, such guarantees amounted to nil (December 31, 2022 - $89.1 million, which expired in 2023), and no amount has been provided for in the REIT's Financial Statements for these items. These amounts arise where H&R has guaranteed a co-owner's share of the mortgage liability. H&R, however, customarily guarantees or indemnifies the obligations of its nominee companies, which hold title to each of its properties owned.

On December 31, 2021, the REIT completed a spin off, on a tax-free basis, of 27 properties including all of the REIT's enclosed shopping centres (the "Primaris Spin-Off") to a new publicly-traded REIT ("Primaris REIT"). The REIT continues to guarantee certain debt in connection with the Primaris Spin-Off, and will remain liable until such debts are extinguished or the lenders agree to release the REIT's guarantees. As at September 30, 2023, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, was $210.5 million, which expire between 2024 and 2030 (December 31, 2022 - $215.7 million – which expire between 2024 and 2030).

In addition, the REIT provides guarantees on behalf of the co-owners of certain of Primaris REIT's properties. As at September 30, 2023, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, was $89.8 million, which expire between 2024 and 2027 (December 31, 2022 - $91.3 million, which expire between 2024 and 2027). There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in the REIT's Financial Statements.

DERIVATIVE INSTRUMENTS

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

Where appropriate, H&R uses forward exchange contracts to lock-in foreign exchange rates. As at September 30, 2023, H&R had one forward exchange contact in place, noted in the table below. This strategy manages risks related to foreign exchange rates on transactions that will occur in the future.

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

		Fair value asset (liability)*		Net unrealized gain on derivative instruments		Net unrealized gain on derivative instruments	
		September 30	December 31	Three months ended September 30		Nine months ended September 30	
(in thousands of Canadian dollars)	**Maturity**	**2023**	2022	**2023**	2022	**2023**	2022
Term loan interest rate swap(1)	May 7, 2030	**$36,506**	$26,875	**$8,293**	$1,042	**$9,631**	$31,261
Term loan interest rate swap(2)	January 6, 2026	**14,651**	11,286	**768**	3,036	**3,365**	18,219
Debt interest rate swap(3)	September 29, 2027	**9,358**	(302)	**4,640**	(906)	**9,660**	(906)
Foreign exchange hedge(4)	March 10, 2025	**(261)**	—	**(3,909)**	—	**(261)**	—
		$60,254	$37,859	**$9,792**	$3,172	**$22,395**	$48,574

(1) To fix the interest rate at 3.17% per annum for the $250.0 million term loan.
(2) To fix the interest rate at 4.16% per annum for the $250.0 million term loan.
(3) To fix the interest rate at 5.19% per annum on $250.0 million of variable rate debt, which includes a $125.0 million unsecured term loan.
(4) To fix the foreign exchange rate at $1.38 on U.S. $10.0 million, monthly. Under certain circumstances, the hedge may terminate between March 11, 2024 and March 10, 2025.

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

SELECTED FINANCIAL INFORMATION

Summary of Quarterly Information

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

(in thousands of Canadian dollars)	**Q3 2023**	Q2 2023	Q1 2023	Q4 2022
Rentals from investment properties	**$210,446**	$212,501	$218,295	$216,835
Net income (loss) from equity accounted investments	**(11,017)**	1,260	9,896	53,473
Net income (loss)	**37,596**	(59,395)	94,802	(116,129)
Total comprehensive income (loss) attributable to unitholders	**166,623**	(155,762)	61,930	(188,004)

	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Rentals from investment properties	$213,709	$202,394	$201,702	$265,794
Net income (loss) from equity accounted investments	(60,071)	8,884	44,853	89,298
Net income (loss)	(121,496)	112,457	969,991	208,195
Total comprehensive income attributable to unitholders	172,927	248,581	932,889	183,199

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

Rentals from investment properties decreased by $2.1 million in Q3 2023 compared to Q2 2023 primarily due to properties sold.

Net income (loss) from equity accounted investments decreased by $12.3 million in Q3 2023 compared to Q2 2023 primarily due to fair value adjustments on real estate assets.

Net income (loss) increased by $97.0 million in Q3 2023 compared to Q2 2023 primarily due to fair value adjustments on real estate assets and proceeds on disposal of purchase option, partially offset by fair value adjustments on financial instruments, deferred income tax recoveries applicable to U.S. Holdco and the net income (loss) from equity accounted investments noted above.

Total comprehensive income (loss) attributable to unitholders increased by $322.4 million in Q3 2023 compared to Q2 2023 primarily due to the increase in net income (loss) noted above as well as an unrealized foreign currency gain on translation of U.S. denominated foreign operations of $129.0 million in Q3 2023 compared to an unrealized loss of $96.4 million in Q2 2023.

SECTION IV

NON-GAAP MEASURES AND NON-GAAP RATIOS

The REIT's Financial Statements are prepared in accordance with IAS 34. However, in this MD&A, a number of measures and ratios are presented that are not measures or ratios under GAAP in accordance with IAS 34. These measures and ratios, as well as the reasons why management believes these measures and ratios are useful to investors, are described below.

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

Non-GAAP Measures

(a) **The REIT's proportionate share**

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

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

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

(i) Straight-lining of contractual rent. By excluding the impact of straight-lining of contractual rent, rentals from investment properties will consist primarily of actual rents collected by H&R.
(ii) Realty taxes accounted for under IFRS Interpretations Committee Interpretation 21, *Levies* ("IFRIC 21"), which relates to the timing of the liability recognition for U.S. realty taxes. By excluding the impact of IFRIC 21, U.S. realty tax expenses are evenly matched with realty tax recoveries received from tenants throughout the period.
(iii) The Bow non-cash rental adjustment. This is a result of the Bow sale transaction not meeting the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of the Bow. The REIT is legally only entitled to 15% of the lease revenue from the Ovintiv lease, however, under IFRS 15, 100% of the lease revenue is recognized in the REIT's Financial Statements, resulting in 85% of the recognized lease revenue being non-cash.
(iv) 100 Wynford non-cash rental adjustment. This is a result of the 100 Wynford sale transaction not meeting the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of 100 Wynford. Under IFRS 15, the REIT recognizes 100% of the lease revenue in the REIT's Financial Statements which represents a non-cash item.

Same-Property net operating income (cash basis) is a non-GAAP measure used by H&R to assess period-over-period performance for properties owned and operated since January 1, 2022. Same-Property net operating income (cash basis) adjusts net operating income to include net operating income from equity accounted investments on a proportionately consolidated basis at H&R's ownership interest of the applicable investment. Same-Property net operating income (cash basis) also excludes the first two non-cash items noted above as the Bow and 100 Wynford have been included in Transactions.

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

- Acquisitions, dispositions, and transfers of investment properties to or from properties under development during the 21-month period ended September 30, 2023 (collectively, "Transactions").

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

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

FFO and AFFO are non-GAAP measures widely used in the real estate industry as a measure of operating performance particularly by those publicly traded entities that own and operate investment properties. H&R presents its consolidated FFO and AFFO calculations in accordance with the January 2022 guidance in the REALPAC Funds Real Property Association of Canada's (REALPAC) *White Paper* *on Funds From Operations and Adjusted Funds From Operations for IFRS,* except for "the Bow and 100 Wynford non-cash rental and accretion adjustments".

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

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

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

FFO provides an operating performance measure that when compared period over period, reflects the impact on operations of trends in occupancy levels, rental rates, property operating costs, acquisition activities and finance costs, that is not immediately apparent from net income (loss) determined in accordance with IFRS. Management believes FFO to be a useful earnings measure for investors as it adjusts net income (loss) for items that are not recurring including gain (loss) on sale of real estate assets, as well as non-cash items such as the fair value adjustments on investment properties.

AFFO is calculated by adjusting FFO for the following items: straight-lining of contractual rent, capital expenditures, leasing expenses and tenant inducements. Although capital and tenant expenditures can vary from quarter to quarter due to tenant turnovers, vacancies and the age of a property, H&R has elected to deduct actual capital and tenant expenditures in the relevant period. This may differ from others in the industry that deduct a normalized amount of capital expenditures, leasing expenses and tenant inducements based on historical activity, in their AFFO calculation. Furthermore, since H&R adjusts for actual tenant inducements paid, the amortization of tenant inducements per the REIT's Financial Statements and at the REIT's proportionate share is added back in order to only deduct the actual costs incurred by the REIT. Capital expenditures excluded and not deducted in the calculation of AFFO relate to capital expenditures which generate a new investment stream.

H&R's method of calculating FFO and AFFO may differ from other issuers' calculations. FFO and AFFO should not be construed as an alternative to net income (loss) or any other operating or liquidity measure prescribed under IFRS. Management uses FFO and AFFO to better understand and assess operating performance since net income (loss) includes several non-cash items which management believes are not fully indicative of the REIT's performance. Refer to the *"Funds From Operations and Adjusted Funds From Operations"* section of this MD&A for a reconciliation of net income (loss) to FFO and AFFO.

Non-GAAP Ratios

(a) **Debt to Adjusted EBITDA at the REIT's proportionate share**

Debt to Adjusted EBITDA at the REIT's proportionate share is a non-GAAP ratio used to evaluate financial leverage. Debt includes mortgages, debentures, unsecured term loans, lines of credit payable to lenders and liabilities classified as held for sale. Adjusted EBITDA is calculated by taking the sum of net operating income (excluding straight-lining of contractual rent, IFRIC 21, as well as the Bow and 100 Wynford non-cash rental adjustments) and finance income and subtracting trust expenses (excluding the fair value adjustment to unit-based compensation) for the last 12 months. The Bow's non-cash rent is due to the REIT recognizing 100% of the lease revenue from the Ovintiv lease in the REIT's Financial Statements in accordance with IFRS 15, however the REIT is only legally entitled to 15% of the lease revenue. 100 Wynford's non-cash rent is due to the REIT recognizing 100% of the lease revenue from the Bell lease in the REIT's Financial Statements in accordance with IFRS 15. Adjusted EBITDA is used as an alternative to net income (loss) because it excludes major non-cash items. Management uses this ratio and believes it is useful for investors as it is an operational measure used to evaluate the length of time it would take the REIT to repay its debt based on its operating performance.

Debt to Adjusted EBITDA at the REIT's proportionate share and a reconciliation of Adjusted EBITDA to net income (loss) is presented in the *"Debt"* section of this MD&A.

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

H&R's Declaration of Trust limits the indebtedness of H&R (subject to certain exceptions) to a maximum of 65% of the total assets of H&R, based on the REIT's Financial Statements. H&R also presents this ratio at the REIT's proportionate share which is a non-GAAP ratio. Debt includes mortgages, debentures, unsecured term loans, lines of credit payable to lenders and liabilities classified as held for sale. Total assets have been adjusted to exclude the Bow and 100 Wynford, which the REIT legally disposed of in October 2021 and August 2022, respectively. These transactions did not meet the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of the Bow for $737.0 million in 2038 or earlier under certain circumstances and 100% of 100 Wynford for $159.7 million in 2036 or earlier under certain circumstances. As a result, the REIT continues to recognize these two income producing properties in its consolidated statement of financial position, and the fair values of the Bow and 100 Wynford will be adjusted over the remaining lives of their respective leases, bringing the value of each real estate asset to nil by their respective lease maturity.

Management uses this ratio to determine the REIT's flexibility to incur additional debt. Management believes this is useful for investors in order to assess the REIT's leverage and debt obligations. Refer to the *"Financial Highlights"* and *"Debt"* sections of this MD&A for debt to total assets per the REIT's Financial Statements and at the REIT's proportionate share.

(c) **FFO per Unit and AFFO per Unit**

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

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

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

(e) **NAV per Unit**

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

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 included in the *"Risks and Uncertainties"* section of H&R's annual MD&A for the year ended December 31, 2022 and in the *"Risks Factors"* section of H&R's 2022 Annual Information Form.

OUTSTANDING UNIT DATA

The beneficial interests in the REIT are represented by two classes of units: Units which are unlimited in number and special voting units of which a maximum of 13,013,698 may be issued. Each Unit carries a single vote at any meeting of unitholders of the REIT. Each special voting unit carries a single vote at any meeting of unitholders of the REIT. As at September 30, 2023 there were 261,867,587 Units issued and outstanding and 13,013,698 special voting units outstanding. As at November 7, 2023, there were 261,867,587 Units issued and outstanding and 13,013,698 special voting units outstanding.

As at September 30, 2023, the maximum number of options to purchase Units authorized to be issued under H&R's Unit Option Plan was 11,000,000. Of this amount, 8,805,638 options to purchase Units have been granted and are outstanding and 2,194,362 options remain available for granting. As at November 7, 2023, there were 8,805,638 options to purchase Units outstanding and fully vested.

As at September 30, 2023, the maximum number of incentive units authorized to be granted under H&R's Incentive Unit Plan was 5,000,000. The REIT has granted 1,669,265 incentive units which remain outstanding, 365,450 have been settled for Units and 2,965,285 incentive units remain available for granting. As at November 7, 2023, there were 1,657,032 incentive units outstanding.

As at September 30, 2023 and November 7, 2023, there were 17,974,186 exchangeable units outstanding of which 13,013,698 exchangeable units are accompanied by special voting units.

ADDITIONAL INFORMATION

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

SUBSEQUENT EVENTS

(a) In October 2023, the REIT sold one U.S. industrial property and one U.S. office property which were both classified as held for sale as at September 30, 2023 for aggregate gross proceeds of approximately U.S. $32.6 million.

Unaudited condensed consolidated interim financial statements of

H&R REAL ESTATE INVESTMENT TRUST

For the three and nine months ended September 30, 2023 and 2022

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H&R REAL ESTATE INVESTMENT TRUST

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

	Note	**September 30 2023**	December 31 2022
		(Unaudited)	
Assets			
Real estate assets:			
Investment properties	*3*	**$8,375,212**	$8,799,317
Properties under development	*3*	**1,066,863**	880,778
		9,442,075	9,680,095
Equity accounted investments	*4*	**1,055,883**	1,060,268
Assets classified as held for sale	*5*	**43,656**	294,028
Other assets	*6*	**377,450**	301,325
Cash and cash equivalents	*7*	**145,871**	76,887
		$11,064,935	$11,412,603
Liabilities and Unitholders' Equity			
Liabilities:			
Debt	*8*	**$3,775,649**	$3,922,529
Exchangeable units	*9*	**165,902**	217,668
Deferred revenue	*10*	**957,551**	986,243
Deferred tax liability	*19*	**446,860**	483,048
Accounts payable and accrued liabilities	*11*	**318,828**	309,505
Liabilities classified as held for sale	*5*	**—**	6,323
		5,664,790	5,925,316
Unitholders' equity		**5,400,145**	5,487,287
Commitments and contingencies	*21*		
Subsequent events	*22*		
		$11,064,935	$11,412,603

See accompanying notes to the unaudited condensed consolidated interim financial statements.

H&R REAL ESTATE INVESTMENT TRUST

Unaudited Condensed Consolidated Interim Statements of Comprehensive Income
(In thousands of Canadian dollars)

		Three months ended September 30		Nine months ended September 30	
	Note	**2023**	2022	**2023**	2022
Rentals from investment properties	*15*	**$210,446**	$213,709	**$641,242**	$617,805
Property operating costs		**(61,030)**	(65,342)	**(241,998)**	(230,968)
Net operating income		**149,416**	148,367	**399,244**	386,837
Net income (loss) from equity accounted investments	*4*	**(11,017)**	(60,071)	**139**	(6,334)
Finance cost - operations	*16*	**(54,107)**	(55,366)	**(164,022)**	(164,637)
Finance income	*16*	**4,068**	4,410	**10,524**	11,589
Proceeds on disposal of purchase option		**30,568**	—	**30,568**	—
Trust (expenses) recoveries		**(2,872)**	2,633	**(17,331)**	(11,109)
Fair value adjustment on financial instruments	*16*	**28,126**	39,756	**74,161**	68,583
Fair value adjustment on real estate assets	*3*	**(112,824)**	(235,192)	**(288,517)**	770,561
Gain (loss) on sale of real estate assets, net of related costs	*3*	**(3,479)**	(857)	**(6,128)**	10,654
Net income (loss) before income taxes		**27,879**	(156,320)	**38,638**	1,066,144
Income tax (expense) recovery	*19*	**9,717**	34,824	**34,365**	(105,192)
Net income (loss)		**37,596**	(121,496)	**73,003**	960,952
Other comprehensive income (loss):					
Items that are or may be reclassified subsequently to net income (loss)	*14*	**129,027**	294,423	**(212)**	393,445
Total comprehensive income attributable to unitholders		**$166,623**	$172,927	**$72,791**	$1,354,397

See accompanying notes to the unaudited condensed consolidated interim financial statements.

H&R REAL ESTATE INVESTMENT TRUST

Unaudited Condensed Consolidated Interim Statements of Changes in Unitholders' Equity
(In thousands of Canadian dollars)

UNITHOLDERS' EQUITY	*Note*	Value of Units	Accumulated net income	Accumulated distributions	Accumulated other comprehensive income	Total
Unitholders' equity, January 1, 2022		$5,417,419	$5,871,699	($6,651,546)	$136,261	$4,773,833
Proceeds from issuance of Units		3,902	—	—	—	3,902
Net income		—	960,952	—	—	960,952
Distributions to unitholders		—	—	(109,958)	—	(109,958)
Units repurchased and cancelled		(297,056)	—	—	—	(297,056)
Other comprehensive income		—	—	—	393,445	393,445
Unitholders' equity, September 30, 2022		5,124,265	6,832,651	(6,761,504)	529,706	5,725,118
Net loss		—	(116,129)	—	—	(116,129)
Distributions to unitholders		—	—	(49,827)	—	(49,827)
Other comprehensive loss		—	—	—	(71,875)	(71,875)
Unitholders' equity, December 31, 2022		5,124,265	6,716,522	(6,811,331)	457,831	5,487,287
Proceeds from issuance of Units		**1,695**	**—**	**—**	**—**	**1,695**
Net income		**—**	**73,003**	**—**	**—**	**73,003**
Distributions to unitholders		**—**	**—**	**(118,905)**	**—**	**(118,905)**
Units repurchased and cancelled	***13(c)***	**(42,723)**	**—**	**—**	**—**	**(42,723)**
Other comprehensive loss	***14***	**—**	**—**	**—**	**(212)**	**(212)**
Unitholders' equity, September 30, 2023		**$5,083,237**	**$6,789,525**	**($6,930,236)**	**$457,619**	**$5,400,145**

See accompanying notes to the unaudited condensed consolidated interim financial statements.

H&R REAL ESTATE INVESTMENT TRUST

Unaudited Condensed Consolidated Interim Statements of Cash Flows
(In thousands of Canadian dollars)

	Note	Nine months ended September 30 2023	2022
Cash provided by (used in):			
Operations:			
Net income		**$73,003**	$960,952
Finance cost - operations	*16*	**164,022**	164,637
Interest paid		**(127,611)**	(128,258)
Items not affecting cash:			
Rental income accrued from the Bow and 100 Wynford	*10*	**(69,626)**	(63,464)
Net (income) loss from equity accounted investments	*4*	**(139)**	6,334
Rent amortization of tenant inducements	*15*	**3,384**	3,482
Fair value adjustment on real estate assets	*3*	**288,517**	(770,561)
IFRS Interpretations Committee Interpretation 21, Levies ("IFRIC 21") realty tax adjustment	*3*	**13,762**	11,284
(Gain) loss on sale of real estate assets, net of related costs	*3*	**6,128**	(10,654)
Fair value adjustment on financial instruments	*16*	**(74,161)**	(68,583)
Unit-based compensation recovery	*13(a)*	**(1,599)**	(381)
Deferred income tax expense (recovery)	*19*	**(35,922)**	104,204
Change in other non-cash operating items	*17*	**1,901**	(28,679)
		241,659	180,313
Investing:			
Properties under development:			
Acquisitions	*3*	**(18,666)**	(65,897)
Additions	*3, 17*	**(124,577)**	(43,828)
Investment properties:			
Deferred revenue	*10*	**—**	118,608
Net proceeds on disposition of real estate assets		**328,057**	209,376
Acquisitions	*3*	**(56)**	(86)
Redevelopment, net of insurance proceeds	*3*	**(5,684)**	7,405
Capital expenditures	*3*	**(30,287)**	(19,851)
Leasing expenses and tenant inducements	*3*	**(3,767)**	(3,642)
Equity accounted investments, net		**4,525**	49,421
Mortgages receivable, net		**37,649**	(11,778)
Restricted cash	*6*	**(36,724)**	(85,823)
Proceeds from sale of Primaris REIT units		**—**	49,275
		150,470	203,180
Financing:			
Unsecured term loans	*8*	**(125,000)**	—
Lines of credit	*8*	**261,886**	285,000
Mortgages payable:			
New mortgages payable	*8*	**20,398**	—
Principal repayments	*8*	**(56,410)**	(286,228)
Redemption of debentures payable	*8*	**(250,000)**	—
Proceeds from issuance of Units	17	**(13)**	(331)
Units repurchased and cancelled	*13(c)*	**(42,723)**	(297,056)
Distributions paid to unitholders	*17*	**(131,283)**	(143,210)
		(323,145)	(441,825)
Increase (decrease) in cash and cash equivalents		**68,984**	(58,332)
Cash and cash equivalents, beginning of year	*7*	**76,887**	124,141
Cash and cash equivalents, end of period	*7*	**$145,871**	$65,809

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

See accompanying notes to the unaudited condensed consolidated interim financial statements.

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

1. Basis of preparation:

(a) Statement of compliance

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. The December 31, 2022 comparative financial information has been derived from the December 31, 2022 audited annual consolidated financial statements.

The unaudited condensed consolidated interim financial statements were approved by the Board of Trustees of the REIT (the "Board") on November 14, 2023.

(b) Functional currency and presentation

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

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

(i) Real estate assets;

(ii) Assets classified as held for sale;

(iii) Certain mortgages receivable;

(iv) Derivative instruments;

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

(vi) Exchangeable units.

2. Significant accounting policies:

The accounting policies applied by the REIT in the unaudited condensed consolidated interim financial statements are the same as those applied in the consolidated audited financial statements as at and for the year ended December 31, 2022.

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

3. Real estate assets:

		September 30, 2023		December 31, 2022	
	Note	**Investment Properties**	**Properties Under Development**	Investment Properties	Properties Under Development
Opening balance, beginning of year		**$8,799,317**	**$880,778**	$8,581,100	$481,432
Acquisitions, including transaction costs		**56**	**18,666**	78,448	90,845
Dispositions		**(83,430)**	**—**	(256,292)	—
Operating capital:					
Capital expenditures		**30,287**	**—**	35,582	—
Leasing expenses and tenant inducements		**3,767**	**—**	8,516	—
Development capital:					
Redevelopment, net of insurance proceeds		**5,684**	**—**	(5,425)	—
Additions to properties under development (including capitalized interest)		**—**	**129,867**	—	71,255
Amortization of tenant inducements and straight-lining of contractual rents		**5,639**	**—**	1,896	—
Transfer of properties under development that have reached substantial completion to investment properties		**—**	**—**	56,834	(56,834)
Transfer of investment properties to assets classified as held for sale	*5*	**(43,656)**	**—**	(294,028)	—
Change in right-of-use asset[(1)]	*17*	**—**	**(750)**	—	(1,023)
Fair value adjustment on real estate assets		**(326,517)**	**38,000**	283,705	262,376
Change in foreign exchange		**(2,173)**	**302**	308,981	32,727
IFRIC 21 realty tax adjustment		**(13,762)**	**—**	—	—
Closing balance, end of period		**$8,375,212**	**$1,066,863**	$8,799,317	$880,778

(1) As at September 30, 2023, the right-of-use asset in a leasehold interest of U.S. $21,809 (December 31, 2022 - U.S. $22,360) was measured at an amount equal to the corresponding lease liability (note 11). The Canadian dollar equivalent of this amount is $29,660 (December 31, 2022 - $30,410).

Asset acquisitions:

During the nine months ended September 30, 2023, the REIT:

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

(b) acquired a 50% interest in one U.S. land parcel for future residential development (year ended December 31, 2022 - acquired five U.S. land parcels for future residential development).

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

	September 30 2023	December 31 2022
Assets		
Investment properties	**$—**	$78,362
Properties under development	**18,666**	90,845
	$18,666	$169,207

During the nine months ended September 30, 2023, the REIT incurred additional costs of $56 (year ended December 31, 2022 - $86) in respect of prior year acquisitions which are not included in the above table.

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

Asset dispositions:

During the nine months ended September 30, 2023, the REIT sold one Canadian office property, one U.S. office property, a 50% interest in one Canadian office property, four Canadian retail properties, one U.S. retail property and a 50% interest in two industrial properties and recognized a loss on sale of real estate assets of $6,128 (three months ended September 30, 2023 - $3,479).

During the nine months ended September 30, 2022, the REIT sold one Canadian office property, two Canadian retail properties, seven U.S. retail properties, a 50% interest in one industrial property and one U.S. residential property and recognized a gain on sale of real estate assets of $10,654 (three months ended September 30, 2022 - loss on sale of real estate assets of $857).

Fair value disclosure:

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

(i) Discounted cash flow analyses which are based upon, among other things, future cash inflows in respect of rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the reporting period, less future cash outflows in respect of such leases and capital expenditures for the property utilizing appropriate discount rates and terminal capitalization rates, generally over a minimum term of 10 years; and

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

During the nine months ended September 30, 2023, certain properties were valued by professional external independent appraisers. When an external independent appraisal is obtained, the REIT's internal valuation team assesses the significant assumptions used in the appraisal and holds discussions with the external independent appraiser on the reasonableness of their assumptions. External independent appraisals received throughout the period represent 15.0% and 0.0% of the fair value of investment properties and properties under development, respectively, as at September 30, 2023 (year ended December 31, 2022 - 21.4% and 35.5%, respectively).

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

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

	Weighted Average Capitalization Rates[1]			**Weighted Average Discount Rates[2]**			**Weighted Average Terminal Capitalization Rates[1][2]**		
	Canada	United States	Total	Canada	United States	Total	Canada	United States	Total
September 30, 2023	**5.80%**	**5.65%**	**5.72%**	**6.72%**	**7.55%**	**6.94%**	**6.39%**	**7.24%**	**6.67%**
December 31, 2022	5.65%	5.23%	5.41%	6.58%	7.12%	6.73%	6.08%	6.70%	6.29%

(1) Excludes the Bow and 100 Wynford as these properties were legally sold in October 2021 and August 2022, respectively. The discount rate is used to adjust the fair value of the investment properties over the remaining life of the respective leases (note 10).

(2) Excludes the REIT's residential segment as these properties are valued using the direct capitalization method.

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

Fair value sensitivity:

The REIT's investment properties are classified as level 3 under the fair value hierarchy (note 20(b)), as the inputs in the valuations of these investment properties are not based on observable market data. The following table provides a sensitivity analysis for the weighted average capitalization rate applied as at September 30, 2023:

Capitalization Rate Sensitivity Increase (Decrease)	Capitalization Rate	Fair Value of Investment Properties	Fair Value Variance	% Change
(0.75%)	4.97%	$ 8,376,772	$ 1,098,353	15.09%
(0.50%)	5.22%	$ 7,975,586	$ 697,167	9.58%
(0.25%)	5.47%	$ 7,611,071	$ 332,652	4.57%
September 30, 2023	**5.72%**	**$ 7,278,419** [1]	$ —	—
0.25%	5.97%	$ 6,973,628	$ (304,791)	(4.19)%
0.50%	6.22%	$ 6,693,337	$ (585,082)	(8.04)%
0.75%	6.47%	$ 6,434,707	$ (843,712)	(11.59)%

(1) Excludes the Bow and 100 Wynford as these properties were legally sold in October 2021 and August 2022, respectively (note 10).

4. Equity accounted investments:

The REIT has entered into a number of arrangements with other parties for the purpose of jointly developing, owning and operating investment properties. In order to determine how these arrangements should be accounted for, the REIT has assessed the structure of the arrangement, and whether the REIT has joint control over the operations of such properties. The REIT's arrangements fall into three categories: (i) joint operations, where the REIT has joint control over the operations and the REIT has rights to the assets and obligations for the liabilities of the properties; (ii) joint ventures, where the REIT has joint control over the operations, where each investment is structured as a separate vehicle and the REIT has rights to the net assets of the entities; and (iii) investments in associates, where the REIT has significant influence over the investment but does not have joint control over the operations. Joint operations are accounted for by including the REIT's proportionate share of the underlying assets, liabilities, revenue and expenses in its financial results. Joint ventures and investments in associates are accounted for using the equity method.

			Ownership interest	
Description of equity accounted investments	**Location**	**Operating segment**	**September 30 2023**	December 31 2022
Investments in joint ventures:[1]				
Hercules Project	United States	Residential	**31.7 %**	31.7 %
Shoreline	United States	Residential	**31.2 %**	31.2 %
Slate Drive	Canada	Industrial	**50.0 %**	50.0 %
One industrial property	United States	Industrial	**50.5 %**	50.5 %
Central Pointe	United States	Residential	**50.0 %**	50.0 %
Sunny Creek	United States	Residential	**33.3 %**	— %
Investments in associates:[2]				
Jackson Park	United States	Residential	**50.0 %**	50.0 %
ECHO Realty LP ("ECHO")	United States	Retail	**33.1 %**	33.7 %

(1) Where the REIT has joint control over the operations, each investment is structured as a separate vehicle and the REIT has rights to the net assets of the entities.
(2) Where the REIT has significant influence over the investment but does not have joint control over the operations.

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

During the nine months ended September 30, 2023, the REIT acquired Sunny Creek, a joint venture that holds one residential property under development.

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

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

	September 30, 2023				December 31, 2022			
Equity accounted investments in:	**----Associates----**		**Joint Ventures[1]**		----Associates----		Joint Ventures[1]	
	ECHO	**Jackson Park**		**Total**	ECHO	Jackson Park		Total
Investment properties[2]	**$2,667,878**	**$2,057,711**	**$493,920**	**$5,219,509**	$2,713,391	$2,057,000	$494,887	$5,265,278
Properties under development	**75,123**	**—**	**247,826**	**322,949**	43,428	—	168,753	212,181
Other assets	**57,570**	**2,926**	**4,449**	**64,945**	54,453	3,352	4,462	62,267
Cash and cash equivalents	**19,083**	**10,761**	**45,651**	**75,495**	22,797	12,598	53,876	89,271
Debt	**(1,051,211)**	**(1,347,825)**	**(311,202)**	**(2,710,238)**	(1,060,442)	(1,346,310)	(319,401)	(2,726,153)
Accounts payable and accrued liabilities	**(50,196)**	**(14,362)**	**(8,390)**	**(72,948)**	(30,208)	(16,344)	(11,821)	(58,373)
Lease liability[2]	**(99,278)**	**—**	**—**	**(99,278)**	(105,606)	—	—	(105,606)
Non-controlling interest	**(48,242)**	**—**	**—**	**(48,242)**	(67,004)	—	—	(67,004)
Net assets	**1,570,727**	**709,211**	**472,254**	**2,752,192**	1,570,809	710,296	390,756	2,671,861
REIT's share of net assets	**$520,166**	**$354,606**	**$181,111**	**$1,055,883**	$537,106	$355,503	$167,659	$1,060,268

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

(2) As at September 30, 2023, the total fair value of investment properties within equity accounted investments, net of the lease liability, was $5,120,231 (December 31, 2022 - $5,159,672).

ECHO reports its financial position to the REIT one month in arrears due to time constraints on its reporting. Therefore, the above amounts include ECHO's financial information as at August 31, 2023 and November 30, 2022, respectively.

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

	Three months ended September 30, 2023				Three months ended September 30, 2022			
Net income (loss) from equity accounted investments in:	**----Associates----**		**Joint Ventures[1]**		----Associates----		Joint Ventures[1]	
	ECHO	**Jackson Park**		**Total**	ECHO	Jackson Park		Total
Rentals from investment properties	**$57,303**	**$32,702**	**$7,586**	**$97,591**	$52,290	$24,511	$5,342	$82,143
Property operating costs	**(8,242)**	**(10,480)**	**(1,262)**	**(19,984)**	(7,997)	(12,156)	(2,219)	(22,372)
Net income from equity accounted investments	**103**	**—**	**—**	**103**	657	—	—	657
Finance income	**218**	**—**	**11**	**229**	39	—	15	54
Finance cost - operations	**(14,661)**	**(11,713)**	**(5,173)**	**(31,547)**	(10,755)	(11,278)	(2,957)	(24,990)
Trust (expenses) recoveries	**(3,905)**	**—**	**9**	**(3,896)**	(1,885)	—	(8)	(1,893)
Fair value adjustment on financial instruments	**1,233**	**—**	**—**	**1,233**	1,367	—	—	1,367
Fair value adjustment on real estate assets	**(79,306)**	**(285)**	**(2,140)**	**(81,731)**	(14,041)	(136,844)	1,279	(149,606)
Gain (loss) on sale of real estate assets	**(392)**	**—**	**(27)**	**(419)**	2	—	528	530
Income tax expense	**(19)**	**—**	**—**	**(19)**	(36)	—	(2)	(38)
Net income (loss)	**(47,668)**	**10,224**	**(996)**	**(38,440)**	19,641	(135,767)	1,978	(114,148)
Net income attributable to non-controlling interest	**(584)**	**—**	**—**	**(584)**	(623)	—	—	(623)
Net income (loss) attributable to owners	**(48,252)**	**10,224**	**(996)**	**(39,024)**	19,018	(135,767)	1,978	(114,771)
REIT's share of net income (loss) attributable to unitholders	**($15,972)**	**$5,111**	**($156)**	**($11,017)**	$6,400	($67,884)	$1,413	($60,071)

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

ECHO reports its financial results to the REIT one month in arrears due to time constraints on its reporting. Therefore, the above amounts include ECHO's financial information for June 1, 2023 to August 31, 2023 and June 1, 2022 to August 31, 2022, respectively.

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

Net income (loss) from equity accounted investments in:	**Nine months ended September 30, 2023**				Nine months ended September 30, 2022			
	----Associates----		**Joint Ventures[(1)]**		----Associates----		Joint Ventures[(1)]	
	ECHO	**Jackson Park**		**Total**	ECHO	Jackson Park		Total
Rentals from investment properties	**$171,675**	**$95,821**	**$22,198**	**$289,694**	$155,189	$74,541	$9,218	$238,948
Property operating costs	**(41,112)**	**(28,460)**	**(8,611)**	**(78,183)**	(37,552)	(29,268)	(4,601)	(71,421)
Net income from equity accounted investments	**1,202**	**—**	**—**	**1,202**	1,125	—	—	1,125
Finance income	**653**	**—**	**47**	**700**	55	—	19	74
Finance cost - operations	**(43,089)**	**(34,775)**	**(14,917)**	**(92,781)**	(30,743)	(32,973)	(4,654)	(68,370)
Trust expenses	**(10,657)**	**—**	**(24)**	**(10,681)**	(6,343)	—	(16)	(6,359)
Fair value adjustment on financial instruments	**994**	**—**	**—**	**994**	7,219	—	—	7,219
Fair value adjustment on real estate assets	**(78,506)**	**1,425**	**(48,311)**	**(125,392)**	(15,057)	(132,695)	22,414	(125,338)
Gain (loss) on sale of real estate assets	**(6,146)**	**—**	**1,093**	**(5,053)**	1,486	—	52,232	53,718
Income tax expense	**(109)**	**(18)**	**—**	**(127)**	(122)	(19)	(254)	(395)
Net income (loss)	**(5,095)**	**33,993**	**(48,525)**	**(19,627)**	75,257	(120,414)	74,358	29,201
Net income attributable to non-controlling interest	**(1,656)**	**—**	**—**	**(1,656)**	(2,212)	—	—	(2,212)
Net income (loss) attributable to owners	**(6,751)**	**33,993**	**(48,525)**	**(21,283)**	73,045	(120,414)	74,358	26,989
REIT's share of net income (loss) attributable to unitholders	**($2,235)**	**$16,996**	**($14,622)**	**$139**	$24,578	($60,207)	$29,295	($6,334)

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

ECHO reports its financial results to the REIT one month in arrears due to time constraints on its reporting. Therefore, the above amounts include ECHO's financial information for December 1, 2022 to August 31, 2023 and December 1, 2021 to August 31, 2022, respectively.

5. Assets and liabilities classified as held for sale:

As at September 30, 2023, the REIT had one U.S. office property and one U.S. industrial property classified as held for sale.

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

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

	September 30 2023	December 31 2022
Assets		
Investment properties	**$43,656**	$294,028
Liabilities		
Mortgage payable	**$—**	$6,323

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

6. Other assets:

	Note	September 30 2023	December 31 2022
Mortgages receivable[1]		**$168,541**	$169,190
Prepaid expenses and sundry assets		**77,285**	61,212
Accounts receivable - net of provision for expected credit loss of $3,166 (2022 - $4,946)		**6,941**	5,318
Restricted cash[2]		**64,168**	27,444
Derivative instruments	*12*	**60,515**	38,161
		$377,450	$301,325

	September 30 2023	December 31 2022
Current	**$250,416**	$194,538
Non-current	**127,034**	106,787
	$377,450	$301,325

(1) Mortgages receivable include nil classified as fair value through profit and loss ("FVTPL") and $168,541 classified as amortized cost (December 31, 2022 - $53,355 and $115,835, respectively). As at September 30, 2023, mortgages receivable bear interest at effective rates between 2.50% and 14.32% per annum (December 31, 2022 - between 2.50% and 14.32% per annum) with a weighted average effective rate of 7.60% per annum (December 31, 2022 - 8.18%), and mature between 2023 and 2029 (December 31, 2022 - mature between 2023 and 2029).

(2) Included in restricted cash as at September 30, 2023, was approximately $22,600 of proceeds from the sale of two U.S. properties and approximately $30,600 of proceeds from the disposal of a purchase option held in escrow for property exchanges under Section 1031 of the U.S. Internal Revenue Code (December 31, 2022 - $18,900 of proceeds, from the sale of three U.S. properties).

7. Cash and cash equivalents:

Cash and cash equivalents as at September 30, 2023 included cash on hand of $115,951 (December 31, 2022 - $76,887) and bank term deposits of $29,920 bearing interest at a rate of 5.69% (December 31, 2022 - nil).

Included in cash and cash equivalents as at September 30, 2023 were U.S. dollar denominated amounts of U.S. $62,945 (December 31, 2022 - U.S. $37,043). The Canadian dollar equivalent of these amounts is $85,605 (December 31, 2022 - $50,378).

8. Debt:

The REIT's debt consists of the following items:

	Note	September 30 2023	December 31 2022
Mortgages payable	*8(a)*	**$1,578,628**	$1,613,361
Debentures payable	*8(b)*	**1,297,635**	1,546,668
Unsecured term loans	*8(c)*	**625,000**	750,000
Lines of credit	*8(d)*	**274,386**	12,500
		$3,775,649	$3,922,529

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

The following is a summary of the changes in debt for the nine months ended September 30, 2023:

	Note	Mortgages Payable	Debentures Payable	Unsecured Term Loans	Lines of Credit	Total
Opening balance, beginning of year		$1,613,361	$1,546,668	$750,000	$12,500	$3,922,529
Scheduled amortization payments		(31,213)	—	—	(614)	(31,827)
Debt repayments	8(b), 8(c), 8(d)	(25,197)	(250,000)	(125,000)	(12,500)	(412,697)
New debt	8(d)	20,398	—	—	275,000	295,398
Effective interest rate accretion		1,381	967	—	—	2,348
Change in foreign exchange		(102)	—	—	—	(102)
Closing balance, end of period		$1,578,628	$1,297,635	$625,000	$274,386	$3,775,649

(a) Mortgages payable:

The mortgages payable are secured by 47 real estate assets with an aggregate fair value of $3,671,907 (December 31, 2022 - 51 real estate assets with an aggregate fair value of $3,863,654), bearing interest at fixed rates with a contractual weighted average rate of 4.01% (December 31, 2022 - 3.99%) per annum and maturing between 2023 and 2032 (December 31, 2022 - maturing between 2023 and 2032). Included in mortgages payable as at September 30, 2023 were U.S. dollar denominated mortgages of U.S. $783,909 (December 31, 2022 - U.S. $797,556). The Canadian dollar equivalent of these amounts is $1,066,116 (December 31, 2022 - $1,084,676).

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

Future principal mortgage payments are as follows:

	September 30 2023
Years ending December 31:	
2023[(1)]	**$134,823**
2024	**77,399**
2025	**143,964**
2026	**86,504**
2027	**447,704**
2028	**500,614**
Thereafter	**194,666**
	1,585,674
Financing costs and mark-to-market adjustment arising on acquisitions	**(7,046)**
	$1,578,628

(1) For the balance of the year.

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

(b) Debentures payable:

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

					September 30 2023	December 31 2022
	Maturity	**Contractual interest rate**	**Effective interest rate**	**Principal amount**	**Carrying value**	Carrying value
Unsecured Senior Debentures:						
Series O Senior Debentures	January 23, 2023[1]	3.42%	3.44%	$—	**$—**	$249,980
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	**349,859**	349,548
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	**399,204**	398,892
Series R Senior Debentures	June 2, 2026	2.91%	3.00%	250,000	**249,388**	249,229
Series S Senior Debentures	February 19, 2027	2.63%	2.72%	300,000	**299,184**	299,019
		3.33%	3.42%	$1,300,000	**$1,297,635**	$1,546,668

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

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

(c) Unsecured term loans:

The REIT has the following unsecured term loans:

	Maturity Date	**September 30 2023**	December 31 2022
H&R REIT unsecured term loan #1[1]		**$—**	$125,000
H&R REIT unsecured term loan #2[2]	March 7, 2025[5]	**250,000**	250,000
H&R REIT unsecured term loan #3[3]	November 30, 2025	**125,000**	125,000
H&R REIT unsecured term loan #4[4]	January 6, 2026	**250,000**	250,000
		$625,000	$750,000

[1] In August 2023, the REIT repaid all of this unsecured term loan of $125,000, prior to the original maturity date of November 30, 2024.
[2] The REIT entered into an interest rate swap to fix the interest rate at 3.17% per annum. The swap matures on May 7, 2030 (note 12).
[3] The REIT entered into an interest rate swap to fix the interest rate at 5.19% per annum. The swap matures on September 29, 2027 (note 12).
[4] The REIT entered into an interest rate swap to fix the interest rate at 4.16% per annum. The swap matures on January 6, 2026 (note 12).
[5] In August 2023, the $250,000 unsecured term loan agreement was amended to extend the maturity date from March 7, 2024 to March 7, 2025.

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

(d) Lines of credit:

The REIT has the following lines of credit:

	Maturity Date	Total Facility	Amount Drawn	Outstanding Letters of Credit	Available Balance
Revolving unsecured operating lines of credit:					
H&R REIT revolving unsecured line of credit	September 20, 2024[2]	$150,000	$—	$—	$150,000
H&R REIT revolving unsecured line of credit	December 14, 2027[3]	750,000	—	(1,873)	748,127
H&R REIT revolving unsecured letter of credit facility		60,000	—	(39,706)	20,294
Sub-total		960,000	—	(41,579)	918,421
Non-revolving secured operating line of credit[1]:					
H&R REIT and CrestPSP non-revolving secured line of credit	March 14, 2026	274,386	(274,386)	—	—
September 30, 2023		**$1,234,386**	**($274,386)**	**($41,579)**	**$918,421**
December 31, 2022		$985,000	($12,500)	($42,148)	$930,352

(1) Secured by certain investment properties.
(2) In August 2023, the $150,000 revolving unsecured line of credit agreement was amended to extend the maturity date from September 20, 2023 to September 20, 2024.
(3) In September 2023, the $750,000 revolving unsecured line of credit agreement was amended to extend the maturity date from December 14, 2026 to December 14, 2027.

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. There were no U.S. dollar denominated amounts included in lines of credit as at September 30, 2023 and December 31, 2022.

9. Exchangeable units:

As at September 30, 2023, certain of the REIT's subsidiaries had in aggregate 17,974,186 (December 31, 2022 - 17,974,186) exchangeable units outstanding which are puttable instruments where, upon redemption, the REIT has a contractual obligation to issue Units. Holders of all exchangeable units are entitled to receive the economic equivalence of distributions on a per unit amount equal to a per Unit amount provided to holders of Units. These puttable instruments are classified as a liability under IFRS and are measured at FVTPL. At the end of each reporting period, the fair value is determined by using the quoted price of Units on the TSX as the exchangeable units are exchangeable into Units at the option of the holder. The quoted price as at September 30, 2023 was $9.23 (December 31, 2022 - $12.11) per Unit.

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

	September 30 2023	December 31 2022
Carrying value, beginning of year	**$217,668**	$216,841
Exchanged for Units	**—**	(4,064)
(Gain) loss on fair value of exchangeable units	**(51,766)**	4,891
Carrying value, end of period	**$165,902**	$217,668

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

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

10. Deferred revenue:

a) Bow deferred revenue

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

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

ii) Sale of 45% interest in the Ovintiv lease

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

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

b) 100 Wynford deferred revenue

On August 31, 2022, the REIT sold its interest in 100 Wynford Drive, an office property in Toronto, ON ("100 Wynford") to an arm's length third party, Blue Owl Capital, formerly Oak Street ("Blue Owl") for approximately $120,800. Although the REIT sold 100 Wynford, the transaction did not meet the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of 100 Wynford for approximately $159,700 in 2036 or earlier under certain circumstances. As such, the REIT continues to recognize the income producing property whereby the fair value will be adjusted over the remaining life of the Bell lease ("Bell lease") bringing the value of the real estate asset to nil by the lease maturity in April 2036. The net proceeds received by the REIT on disposition were $118,608. These proceeds were recorded as deferred revenue (classified as a liability) and will be amortized over the remaining term of the Bell lease and will consist of principal and interest.

The following is a summary of the Bow and 100 Wynford in the unaudited condensed consolidated interim statements of financial position:

	September 30, 2023			December 31
	The Bow	**100 Wynford**	**Total**	2022
Income producing property - fair value[1]	**$985,969**	**$110,824**	**$1,096,793**	$1,127,002
Deferred revenue - net of amortization of $65,434 (2022 - $36,742)	**846,891**	**110,660**	**957,551**	986,243

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

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

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

	Three months ended September 30			
	The Bow	**100 Wynford**	**2023**	2022
Rental income earned	**$4,243**	**$—**	**$4,243**	$5,084
Rental income earned - **non-cash**	**21,168**	**2,124**	**23,292**	21,718
Revenue reimbursement for property operating costs	**12,344**	**731**	**13,075**	11,769
Property operating costs	**(12,408)**	**(731)**	**(13,139)**	(11,774)
Net operating income	**25,347**	**2,124**	**27,471**	26,797
Accretion finance expense on deferred revenue - **non-cash**	**(13,253)**	**(278)**	**(13,531)**	(13,777)
Fair value adjustment on real estate assets - **non-cash**	**(8,888)**	**(2,556)**	**(11,444)**	(10,885)
Net income (loss)	**$3,206**	**($710)**	**$2,496**	$2,135

	Nine months ended September 30			
	The Bow	**100 Wynford**	**2023**	2022
Rental income earned	**$11,718**	**$—**	**$11,718**	$16,692
Rental income earned - **non-cash**	**63,254**	**6,372**	**69,626**	63,464
Straight-lining of contractual rent	**—**	**—**	**—**	265
Revenue reimbursement for property operating costs	**37,378**	**2,099**	**39,477**	35,226
Property operating costs	**(37,524)**	**(2,132)**	**(39,656)**	(35,240)
Net operating income	**74,826**	**6,339**	**81,165**	80,407
Accretion finance expense on deferred revenue - **non-cash**	**(40,086)**	**(848)**	**(40,934)**	(43,521)
Fair value adjustment on real estate assets - **non-cash**	**(25,961)**	**(6,579)**	**(32,540)**	(26,706)
Net income (loss)	**$8,779**	**($1,088)**	**$7,691**	$10,180

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

11. Accounts payable and accrued liabilities:

	Note	September 30 2023	December 31 2022
Current:			
Other accounts payable and accrued liabilities		**$215,718**	$181,527
Distributions payable to unitholders		**13,093**	25,471
Distributions payable to exchangeable unitholders		**899**	1,722
Debt interest payable		**13,661**	16,480
Prepaid rent		**22,403**	22,033
Unit-based compensation payable:			
Options	*13(a)*	**1,443**	5,592
Incentive units	*13(a)*	**5,348**	3,359
Non-current:			
Derivative instruments	*12*	**261**	302
Lease liability[1]		**29,660**	30,410
Security deposits		**11,745**	10,660
Unit-based compensation payable:			
Incentive units	*13(a)*	**4,597**	11,949
		$318,828	$309,505

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

12. Derivative instruments:

		Fair value asset (liability)*		Net unrealized gain on derivative instruments		Net unrealized gain on derivative instruments	
		September 30	December 31	Three months ended September 30		Nine months ended September 30	
	Maturity	2023	2022	2023	2022	2023	2022
Term loan interest rate swap[1]	May 7, 2030	**$36,506**	$26,875	**$8,293**	$1,042	**$9,631**	$31,261
Term loan interest rate swap[2]	January 6, 2026	**14,651**	11,286	**768**	3,036	**3,365**	18,219
Debt interest rate swap[3]	September 29, 2027	**9,358**	(302)	**4,640**	(906)	**9,660**	(906)
Foreign exchange hedge[4]	March 10, 2025	**(261)**	—	**(3,909)**	—	**(261)**	—
		$60,254	$37,859	**$9,792**	$3,172	**$22,395**	$48,574

The REIT entered into swaps as follows:

(1) To fix the interest rate at 3.17% per annum for the $250,000 term loan.
(2) To fix the interest rate at 4.16% per annum for the $250,000 term loan.
(3) To fix the interest rate at 5.19% per annum on $250,000 of variable rate debt, which includes a $125,000 unsecured term loan.
(4) To fix the foreign exchange rate at $1.38 on U.S. $10,000 monthly. Under certain circumstances, the hedge may terminate between March 11, 2024 and March 10, 2025.

* Derivative instruments in asset and liability positions are not presented on a net basis. Derivative instruments in an asset position are recorded in other assets (note 6) and derivative instruments in a liability position are recorded in accounts payable and accrued liabilities (note 11).

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

13. Unitholders' equity:

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

	September 30 2023	December 31 2022
Balance, beginning of year	**265,884,526**	288,439,847
Issuance of Units:		
Incentive units settled in Units	**130,261**	13,119
Exchangeable units exchanged into Units	**—**	305,360
Units repurchased and cancelled	**(4,147,200)**	(22,873,800)
Balance, end of period	**261,867,587**	265,884,526

The weighted average number of basic Units for the three months ended September 30, 2023 was 262,230,990 (September 30, 2022 - 266,603,952) and for the nine months ended September 30, 2023 was 264,506,026 (September 30, 2022 - 274,958,240).

(a) 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:

Effective March 31, 2023, the unit option plan of the REIT (the "Unit Option Plan") was amended to decrease the aggregate number of Units that may be issued pursuant to grants under the Unit Option Plan to 11,000,000, resulting in the voluntary cancellation of 6,723,110 options previously available for grant as at December 31, 2022.

As at September 30, 2023, a maximum of 11,000,000 (December 31, 2022 - 17,723,110) options to purchase Units were authorized to be issued; 8,805,638 (December 31, 2022 - 10,313,443) options have been granted and are outstanding and 2,194,362 (December 31, 2022 - 7,409,667) options remain available for granting. The exercise price of each option approximates the quoted price of the Units on the date of grant. The options vest at 33.3% per year from the grant date, will be fully vested after three years, and expire ten years after the date of the grant.

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

	September 30, 2023		December 31, 2022	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding and vested, beginning of year	**10,313,443**	**$14.62**	11,660,809	$14.89
Expired	**(1,507,805)**	**16.84**	(1,347,366)	16.93
Outstanding and vested, end of period	**8,805,638**	**$14.24**	10,313,443	$14.62

The outstanding and vested options as at September 30, 2023 are exercisable at varying prices ranging from $13.86 to $16.19 (December 31, 2022 - $13.86 to $16.84) and have a weighted average remaining life of 2.2 years (December 31, 2022 - 2.5 years).

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

(ii) Incentive unit plan:

As at September 30, 2023, a maximum of 5,000,000 (December 31, 2022 - 5,000,000) incentive units exchangeable into Units were authorized to be issued. The REIT has granted 1,669,265 (December 31, 2022 - 1,932,770) incentive units which remain outstanding, 365,450 (December 31, 2022 - 235,189) incentive units have been settled for Units and 2,965,285 (December 31, 2022 - 2,832,041) incentive units remain available for granting.

Incentive units, comprised of restricted units, deferred units and performance units, are recognized based on the grant date fair value and re-measured at each reporting date. The grant agreements provide that the awards will be satisfied in cash, unless the holder elects to have them satisfied in Units issued from treasury, with the result that the awards are classified as cash-settled unit-based payments and presented as liabilities. The incentive units may, if specified at the time of grant, accrue cash distributions during the vesting period and accrued distributions will be paid when the incentive units vest.

The REIT grants restricted units under the incentive unit plan. As at September 30, 2023, 100% of the restricted units outstanding vest on the third anniversary of the grant dates and are subject to forfeiture until the recipients of the awards have held office with, or provided services to, the REIT for a specified period of time. The restricted units are, subject to the holder's election, cash settled upon vesting.

During the three months ended September 30, 2023, the REIT and certain of the Trustees entered into an amending agreement to amend the terms of their respective outstanding restricted units such that the outstanding restricted units will be replaced with deferred units. Deferred units vest immediately upon their grant date and will be redeemed and settled after the Trustee ceases to be a member of the Board.

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

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

	September 30 2023	December 31 2022
	Incentive units	Incentive units
Outstanding, beginning of year	**1,932,770**	1,593,778
Granted	**657,904**	595,641
Expired	**(41,882)**	(81,321)
Settled	**(879,527)**	(175,328)
Outstanding, end of period	**1,669,265**	1,932,770

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

	September 30 2023	December 31 2022
Options	**$1,443**	$5,592
Incentive units	**9,945**	15,308
	$11,388	$20,900

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

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

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
Options	**$2,078**	$6,304	**$4,149**	$3,384
Incentive units	**(742)**	314	**(2,550)**	(3,003)
	$1,336	$6,618	**$1,599**	$381

(b) Distributions:

For the three months ended September 30, 2023, the REIT declared distributions per Unit of $0.15 (September 30, 2022- $0.14) and for the nine months ended September 30, 2023, the REIT declared distributions per Unit of $0.45 (September 30, 2022 - $0.40).

(c) Normal course issuer bid:

On February 9, 2023, the REIT received approval from the TSX for the renewal of its normal course issuer bid ("NCIB") allowing the REIT to purchase for cancellation up to a maximum of 26,028,249 Units on the open market until the earlier of February 15, 2024 and the date on which the REIT has purchased the maximum number of Units permitted under the NCIB.

During the three months ended September 30, 2023, the REIT purchased and cancelled 1,304,900 Units at a weighted average price of $10.38 per Unit, for a total cost of $13,550.

During the nine months ended September 30, 2023, the REIT purchased and cancelled 4,147,200 Units at a weighted average price of $10.30 per Unit, for a total cost of $42,723.

During the year ended December 31, 2022, under a previous NCIB, the REIT purchased and cancelled 22,873,800 Units at a weighted average price of $12.99 per Unit, for a total cost of $297,056.

14. Accumulated other comprehensive income:

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

	September 30, 2023			December 31 2022
	Cash flow hedges	**Foreign operations**	**Total**	Total
Opening balance, beginning of year	**($134)**	**$457,965**	**$457,831**	$136,261
Transfer of realized loss on cash flow hedges to net income (loss)	**19**	**—**	**19**	29
Unrealized gain (loss) on translation of U.S. denominated foreign operations	**—**	**(231)**	**(231)**	321,541
	19	**(231)**	**(212)**	321,570
Closing balance, end of period	**($115)**	**$457,734**	**$457,619**	$457,831

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

15. Rentals from investment properties:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
Rental income	**$171,470**	$170,666	**$517,466**	$501,958
Revenue from services	**39,046**	40,805	**118,209**	116,097
Straight-lining of contractual rent	**1,061**	3,400	**8,951**	3,232
Rent amortization of tenant inducements	**(1,131)**	(1,162)	**(3,384)**	(3,482)
	$210,446	$213,709	**$641,242**	$617,805

16. Finance costs:

		Three months ended September 30		Nine months ended September 30	
	Note	**2023**	2022	**2023**	2022
Finance cost - operations					
Contractual interest on mortgages payable		**($15,441)**	($16,343)	**($46,777)**	($51,365)
Contractual interest on debentures payable		**(10,899)**	(13,051)	**(32,879)**	(38,728)
Contractual interest on unsecured term loans		**(7,103)**	(4,526)	**(22,253)**	(13,461)
Bank interest and charges on lines of credit		**(5,455)**	(4,511)	**(14,947)**	(7,602)
Effective interest rate accretion		**(1,212)**	(1,024)	**(3,434)**	(3,155)
Accretion finance expense on deferred revenue	*10*	**(13,531)**	(13,777)	**(40,934)**	(43,521)
Exchangeable unit distributions		**(2,696)**	(2,484)	**(8,088)**	(7,324)
		(56,337)	(55,716)	**(169,312)**	(165,156)
Capitalized interest[1]		**2,230**	350	**5,290**	519
		(54,107)	(55,366)	**(164,022)**	(164,637)
Finance income		**4,068**	4,410	**10,524**	11,589
Fair value adjustment on financial instruments		**28,126**	39,756	**74,161**	68,583
		($21,913)	($11,200)	**($79,337)**	($84,465)

(1) The weighted average rate of borrowings for the capitalized interest was 5.24% for the three and nine months ended September 30, 2023 (3.60% for the three and nine months ended September 30, 2022).

17. Supplemental cash flow information:

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

	Nine months ended September 30	
	2023	2022
Accrued rents receivable	**($9,023)**	($3,288)
Prepaid expenses and sundry assets	**(18,054)**	(24,490)
Accounts receivable	**(1,623)**	618
Accounts payable and accrued liabilities	**30,601**	(1,519)
	$1,901	($28,679)

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

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

	Note	Nine months ended September 30 **2023**	2022
Non-cash items:			
Non-cash adjustment to proceeds from issuance of Units		**$1,708**	$169
Exchangeable units exchanged for Units	*9*	**—**	4,064
Non-cash assumption of liability held for sale on disposition of investment property		**(6,323)**	—
Mortgages receivable from the sale of investment properties		**37,000**	
Other items:			
Change in right-of-use asset	*3*	**750**	782
Change in distributions payable to unitholders	*11*	**12,378**	33,252
Change in debt interest payable included in finance cost - operations	*11*	**2,819**	4,284
Change in distributions payable to exchangeable unit holders included in finance cost - operations	*11*	**823**	1,278
Capitalized interest on properties under development	*16*	**(5,290)**	(519)

18. Segment disclosures:

The REIT has four reportable operating segments (Residential, Industrial, Office and Retail), in two geographical locations (Canada and the United States). The operating segments derive their revenue primarily from rental income from leases. The segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, determined to be the Chief Executive Officer ("CEO") of the REIT. The CEO measures and evaluates the performance of the REIT based on net operating income on a proportionately consolidated basis for the REIT's equity accounted investments. The accounting policies of the segments presented here are the same as those applied in the consolidated audited financial statements as at and for the year ended December 31, 2022.

(a) Operating segments:

Real estate assets by reportable segment as at September 30, 2023 and December 31, 2022 were as follows:

September 30, 2023	**Residential**	**Industrial**	**Office**	**Retail**	**Total**
Number of investment properties	**24**	**72**	**24**	**274**	**394**
Real estate assets:					
Investment properties	**$3,765,215**	**$1,507,005**	**$3,624,617**	**$1,597,119**	**$10,493,956**
Properties under development	**721,439**	**436,812**	**10,354**	**24,879**	**1,193,484**
	4,486,654	**1,943,817**	**3,634,971**	**1,621,998**	**11,687,440**
Less: assets classified as held for sale	**—**	**(36,720)**	**(6,936)**	**—**	**(43,656)**
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	**(1,252,807)**	**(40,496)**	**—**	**(908,406)**	**(2,201,709)**
	$3,233,847	**$1,866,601**	**$3,628,035**	**$713,592**	**$9,442,075**

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

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

Net operating income by reportable segment for the three months ended September 30, 2023 and September 30, 2022 was as follows:

	Residential	**Industrial**	**Office**	**Retail**	**Sub-total**	**Less: Equity Accounted Investments**	**Three months ended September 30, 2023**
Rentals from investment properties	**$71,415**	**$24,354**	**$117,966**	**$34,634**	**$248,369**	**($37,923)**	**$210,446**
Property operating costs	**(21,897)**	**(5,578)**	**(35,288)**	**(6,650)**	**(69,413)**	**8,383**	**(61,030)**
Net operating income	**$49,518**	**$18,776**	**$82,678**	**$27,984**	**$178,956**	**($29,540)**	**$149,416**

	Residential	Industrial	Office	Retail	Sub-total	Less: Equity Accounted Investments	Three months ended September 30, 2022
Rentals from investment properties	$63,365	$21,017	$127,483	$33,524	$245,389	($31,680)	$213,709
Property operating costs	(23,743)	(4,780)	(40,075)	(6,213)	(74,811)	9,469	(65,342)
Net operating income	$39,622	$16,237	$87,408	$27,311	$170,578	($22,211)	$148,367

Net operating income by reportable segment for the nine months ended September 30, 2023 and September 30, 2022 was as follows:

	Residential	**Industrial**	**Office**	**Retail**	**Sub-total**	**Less: Equity Accounted Investments**	**Nine months ended September 30, 2023**
Rentals from investment properties	**$213,873**	**$73,358**	**$360,943**	**$105,333**	**$753,507**	**($112,265)**	**$641,242**
Property operating costs	**(99,192)**	**(17,309)**	**(124,399)**	**(31,674)**	**(272,574)**	**30,576**	**(241,998)**
Net operating income	**$114,681**	**$56,049**	**$236,544**	**$73,659**	**$480,933**	**($81,689)**	**$399,244**

	Residential	Industrial	Office	Retail	Sub-total	Less: Equity Accounted Investments	Nine months ended September 30, 2022
Rentals from investment properties	$182,500	$62,581	$362,643	$102,922	$710,646	($92,841)	$617,805
Property operating costs	(87,954)	(15,635)	(125,589)	(30,543)	(259,721)	28,753	(230,968)
Net operating income	$94,546	$46,946	$237,054	$72,379	$450,925	($64,088)	$386,837

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

(b) Geographical locations:

The REIT operates in Canada and the United States.

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

	September 30 2023	December 31 2022
Real estate assets:		
Canada	**$4,741,361**	$5,113,057
United States	**6,946,079**	7,079,284
	11,687,440	12,192,341
Less: Assets classified as held for sale	**(43,656)**	(294,028)
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	**(2,201,709)**	(2,218,218)
	$9,442,075	$9,680,095

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
Rentals from investment properties:				
Canada	**$116,431**	$126,557	**$362,100**	$366,711
United States	**131,938**	118,832	**391,407**	343,935
	248,369	245,389	**753,507**	710,646
Less: REIT's proportionate share of rentals relating to equity accounted investments	**(37,923)**	(31,680)	**(112,265)**	(92,841)
	$210,446	$213,709	**$641,242**	$617,805

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

19. Income tax (expense) recovery:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
Income tax computed at the Canadian statutory rate of nil applicable to the REIT for 2023 and 2022	**$—**	$—	**$—**	$—
Current U.S. income tax expense	**(358)**	(322)	**(1,557)**	(988)
Deferred income tax (expense) recovery applicable to H&R REIT (U.S.) Holdings Inc.	**10,075**	35,146	**35,922**	(104,204)
Income tax (expense) recovery in the determination of net income (loss)	**$9,717**	$34,824	**$34,365**	($105,192)

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

The REIT has certain subsidiaries in the United States that are subject to tax on their taxable income at a combined federal and state tax rate of approximately 24.0% (December 31, 2022 - 23.8%). The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	September 30 2023	December 31 2022
Deferred tax assets:		
Net operating losses	**$95,559**	$84,420
Accounts payable and accrued liabilities	**571**	1,386
	96,130	85,806
Deferred tax liabilities:		
Investment properties	**399,148**	427,149
Equity accounted investments	**142,259**	141,705
Other assets	**1,583**	—
	542,990	568,854
Deferred tax liability	**($446,860)**	($483,048)

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

20. Fair value measurement:

(a) 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 values 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.

(b) Fair value of assets and liabilities:

Assets and liabilities measured at fair value in the unaudited condensed consolidated interim 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).

September 30, 2023	Note	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets measured at fair value:						
Investment properties	*3*	**$—**	**$—**	**$8,375,212**	**$8,375,212**	**$8,375,212**
Properties under development	*3*	**—**	**—**	**1,066,863**	**1,066,863**	**1,066,863**
Assets classified as held for sale	*5*	**—**	**—**	**43,656**	**43,656**	**43,656**
Derivative instruments	*6*	**—**	**60,515**	**—**	**60,515**	**60,515**
Assets for which fair values are disclosed:						
Mortgages receivable	*6*	**—**	**—**	**162,305**	**162,305**	**168,541**
		—	**60,515**	**9,648,036**	**9,708,551**	**9,714,787**
Liabilities measured at fair value:						
Exchangeable units	*9*	**(165,902)**	**—**	**—**	**(165,902)**	**(165,902)**
Derivative instruments	*11*	**—**	**(261)**	**—**	**(261)**	**(261)**
Liabilities for which fair values are disclosed:						
Mortgages payable	*8(a)*	**—**	**(1,453,694)**	**—**	**(1,453,694)**	**(1,578,628)**
Debentures payable	*8(b)*	**—**	**(1,231,183)**	**—**	**(1,231,183)**	**(1,297,635)**
Unsecured term loans	*8(c)*	**—**	**(594,338)**	**—**	**(594,338)**	**(625,000)**
Lines of credit	*8(d)*	**—**	**(276,017)**	**—**	**(276,017)**	**(274,386)**
		(165,902)	**(3,555,493)**	**—**	**(3,721,395)**	**(3,941,812)**
		($165,902)	**($3,494,978)**	**$9,648,036**	**$5,987,156**	**$5,772,975**

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

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

21. 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 September 30, 2023, the REIT has outstanding letters of credit totalling $41,579 (December 31, 2022 - $42,148), including $20,000 (December 31, 2022 - $20,680) which has been pledged as security for certain mortgages payable. The letters of credit may be secured by certain investment properties.

(b) The REIT provided guarantees on behalf of third parties, including co-owners. As at September 30, 2023, the REIT issued guarantees amounting to nil (December 31, 2022 - $89,122, which expired in 2023), relating to the co-owner's share of mortgage liability.

On December 31, 2021, the REIT completed a spin off, on a tax-free basis, of 27 properties including all of the REIT's enclosed shopping centres (the "Primaris Spin-Off") to a new publicly-traded REIT ("Primaris REIT"). The REIT continues to guarantee certain debt in connection with the Primaris Spin-Off, and will remain liable until such debts are extinguished or the lenders agree to release the REIT's guarantees. As at September 30, 2023, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, was $210,544, which expire between 2024 and 2030 (December 31, 2022 - $215,680, which expire between 2024 and 2030).

In addition, the REIT continues to provide guarantees on behalf of the co-owners of certain of Primaris REIT's properties. As at September 30, 2023, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, was $89,828, which expire between 2024 and 2027 (December 31, 2022 - $91,319, which expire between 2024 and 2027). There have been no defaults by the primary obligor for debts on which the REIT has provided its guarantees, and as a result, no contingent loss on these guarantees has been recognized in the unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements.

22. Subsequent events:

(a) In October 2023, the REIT sold one U.S. industrial property and one U.S. office property which were both classified as held for sale as at September 30, 2023 for aggregate gross proceeds of approximately U.S. $32,600.

STRONG AND SKILLFUL BOARD WITH UNITHOLDER ALIGNMENT

BOARD MEMBERS

THOMAS J. HOFSTEDTER[1]

Executive Chairman & Chief Executive Officer, H&R REIT

MARK COWIE[1]

Principal, Cowie Capital Partners

JENNIFER A. CHASSON[2]

Founder & President, Springbank Capital Corporation

MARVIN RUBNER[2]

Manager & Founder, YAD Investments Limited

STEPHEN GROSS[3]

Principal, Initial Corporation

BRENNA HAYSOM[2,3]

Chief Executive Officer, Rally Labs

JULI MORROW

Partner, Goodmans LLP

DONALD CLOW[1,2,3]

Independent Lead Trustee

LEONARD ABRAMSKY[1]

President, The Dunloe Group Inc.

LINDSAY BRAND[3]

Corporate Director, Real Estate Investor & Advisor

Majority Independent Board | 10-Year Term Limit | 40% Women | 9% Ownership[4]

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

CORPORATE INFORMATION

TAXABILITY OF DISTRIBUTIONS

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

PLAN ELIGIBILITY

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

STOCK EXCHANGE LISTING

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

REGISTRAR AND TRANSFER AGENT

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

CONTACT INFORMATION

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

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Ticker

H&R Real Estate Investment Trust

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