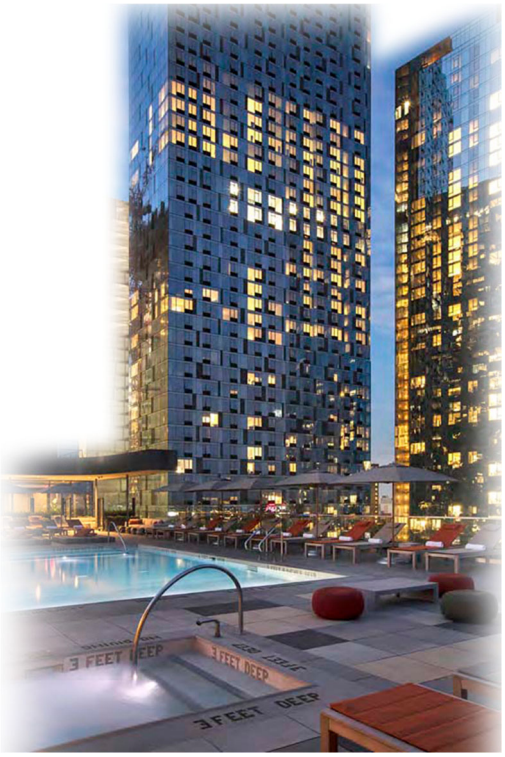
H&R Real Estate Investment Trust
Q3 2020 Quarterly Report to Unitholders
For the Three and Nine Months Ended September 30, 2020

The Bow, Calgary



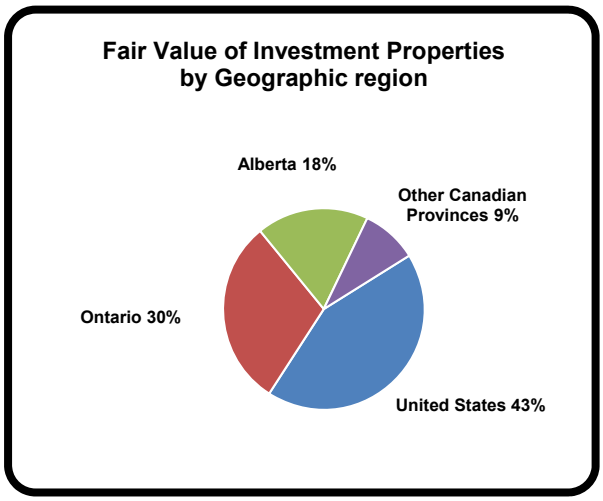
Jackson Park, New York

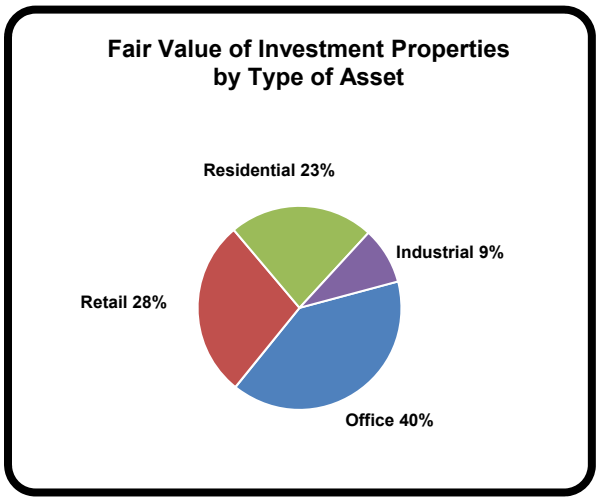
Airport Road, Brampton – Sleep Country

H&R Profile

H&R REIT is one of Canada's largest real estate investment trusts with total assets of approximately $13.3 billion at September 30, 2020. H&R REIT has ownership interests in a North American portfolio of high quality office, retail, industrial and residential properties comprising over 40 million square feet.

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





Primary Objectives

H&R's objective is to maximize NAV per Unit through ongoing active management of H&R's assets, acquisition of additional properties and the development and construction of projects. H&R's strategy to accomplish this objective is to accumulate a diversified portfolio of high-quality investment properties in Canada and the United States leased by creditworthy tenants.

Stability and Growth through Discipline

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

SUMMARY REPORT TO UNITHOLDERS - THIRD QUARTER 2020

BUSINESS UPDATE

COVID-19

The COVID-19 pandemic has dramatically disrupted society and the economy and significantly impacted the commercial property industry. A strong focus on risk management has been and continues to be core to H&R, as reflected by the REIT's long-term leases, high credit quality tenants and conservative balance sheet.

H&R is pleased to report that all of the REIT's properties are currently open and fully operational, including all retail properties, some of which were impacted by mandated closures during Q2 2020. Management has been working closely with all of the REIT's tenants, and particularly retailers at H&R's enclosed shopping centres where same-store sales volume (comprised of commercial retail units smaller than 15,000 square feet) recovered in Q3 2020 to 86% of prior year levels, up from the low 31% average in Q2 2020. Tenant sales have been trending higher since April lows, reaching 88% in September.

Tom Hofstedter, President & CEO of H&R REIT said "We are pleased with our third quarter results given the challenging operating environment, which reflect the following:

- Overall rent collection improved to 93% from 90% in Q2 2020
- FFO[(1)] increased 8% over Q2 2020
- AFFO[(1)] increased 21% over Q2 2020
- Our AFFO payout ratio[(1)] was a conservative 49% and our available liquidity remained at over $1 billion
- Our debt to total assets decreased to 47.2% at the end of Q3 2020 from 48.1% at the end of Q2 2020
- Residential properties in the U.S. Sun-Belt cities have seen increased investment demand

While we are mindful that there may be further COVID related bumps along the way, we believe we will see continued improvement in our future results".

FINANCIAL HIGHLIGHTS

	3 months ended September 30		9 months ended September 30	
	2020	2019	**2020**	2019
Rentals from investment properties (millions)	**$271.6**	$281.6	**$821.2**	$867.2
Property operating income (millions)	**$175.8**	$185.2	**$480.1**	$526.2
Same-Asset property operating income (cash basis) (millions)[(1)]	**$176.2**	$186.5	**$540.5**	$561.9
Fair value adjustment on real estate assets (millions)	**$93.0**	($25.3)	**($1,265.9)**	($60.2)
Net income (loss) (millions)	**$247.8**	$69.3	**($736.2)**	$176.9
Funds from operations ("FFO") (millions)[(1)]	**$124.5**	$130.3	**$375.7**	$395.4
FFO per Unit (basic)[(1)]	**$0.41**	$0.43	**$1.25**	$1.31
Adjusted Funds from Operations ("AFFO") (millions)[(1)]	**$106.7**	$104.0	**$314.2**	$309.6
AFFO per unit (basic)[(1)]	**$0.35**	$0.35	**$1.04**	$1.03
Distributions per Unit	**$0.17**	$0.35	**$0.75**	$1.04
Payout ratio per Unit (as a % of AFFO)[(1)]	**49.0%**	100.0%	**71.8%**	100.8%
Net Asset Value ("NAV") per Unit as at September 30[(1)]	**$22.11**	$25.81	**$22.11**	$25.81

(1) These are non-GAAP measures. See "Non-GAAP Financial Measures" in this press release. H&R's management discussion and analysis ("MD&A") for the three and nine months ended September 30, 2020 includes a reconciliation of property operating income to Same-Asset property operating income (cash basis) and net income (loss) to FFO and AFFO as well as the calculation of NAV per Unit. Readers are encouraged to review the reconciliations and calculation in H&R's MD&A.

The primary reason for the decrease in rentals from investment properties is net disposition activity over the previous 21 months. The REIT completed approximately $1.0 billion of asset sales compared to $206.6 million of acquisitions since January 1, 2019, substantially repositioning its portfolio and enhancing its internal growth profile. H&R continues to actively reallocate capital through property dispositions to fund value-creating developments, expand its residential rental platform and strengthen its balance sheet.

Property operating income and Same-Asset property operating income (cash basis) decreased for the three and nine months ended September 30, 2020 compared to the respective 2019 periods primarily due to a provision for bad debts taken as a result of the impact of COVID-19, which predominantly impacted H&R's retail segment.

Net income increased by $178.5 million for the three months ended September 30, 2020 compared to the respective 2019 period primarily due to fair value adjustments on real estate assets and financial instruments.

Net income decreased by $913.1 million for the nine months ended September 30, 2020 compared to the respective 2019 period primarily due to the fair value adjustment of certain office and retail properties of approximately $1.3 billion and an increase in the provision for bad debts.

FFO per Unit in Q3 2020 was $0.41 compared to $0.38 in Q2 2020 and $0.43 in Q3 2019. Excluding the Q3 2020 provision for bad debts of $13.4 million, Q3 2020 FFO would have been $0.46 per Unit, an increase of $0.03 per Unit compared to Q3 2019. AFFO per Unit was $0.35 in Q3 2020 compared to $0.29 in Q2 2020 and $0.35 in Q3 2019. Distributions paid as a percentage of AFFO was 49.0% in Q3 2020, resulting in significant retained cash flow.

Fair Value Adjustments on Real Estate Assets

The financial results for the nine months ended September 30, 2020 include significant fair value adjustments recorded in Q1 2020. These adjustments are a result of H&R's regular quarterly IFRS fair value process, and include the following impacts of COVID-19: (i) an acceleration of challenging conditions in the retail landscape impacting the valuation assumptions of retail properties; and (ii) energy sector challenges that have impacted the credit quality of many companies operating in this industry and the related impacts on property market fundamentals in markets significantly influenced by energy industry employment.

Given the rapidly changing dynamics within these industries and the broader economy, management and the Board strongly supported taking a more proactive approach to updating fair market values in Q1 2020. While the strong recovery in same-store sales at the REIT's shopping centres and the improved cost and access to credit enjoyed by energy sector tenants are encouraging, there have not been a sufficient number of transactions in the direct property market to warrant changes to valuations in these sectors in Q3 2020.

Fair Value Adjustment on Real Estate Assets (in thousands of Canadian dollars)	3 months ended March 31, 2020	3 months ended June 30, 2020	3 months ended September 30, 2020	9 months ended September 30, 2020
Operating Segment:				
Office	($668,904)	($34,210)	($2,666)	($705,780)
Retail	(658,801)	(5,690)	(5,557)	(670,048)
Industrial	7,094	(4,142)	10,209	13,161
Residential	19,369	(13,634)	91,014	96,749
Total fair value adjustment on real estate assets	($1,301,242)	($57,676)	$93,000	($1,265,918)

Residential properties in U.S. Sun-Belt cities have seen increased investment demand since the start of COVID-19 and this has resulted in a decrease in the capitalization rates used as part of H&R's regular quarterly IFRS fair value process in Q3 2020.

Provision for Bad Debts

The provision for bad debts is classified as an expense and is grouped together with other expenses in property operating costs. The following tables disclose H&R's provision for bad debts as a result of the impact of COVID-19. H&R's retail segment was impacted the most due to government mandated closures primarily affecting the REIT's enclosed shopping centres.

Provision for Bad Debts (in thousands of Canadian dollars)	Three months ended September 30, 2020	Nine months ended September 30, 2020
Expected rent abatements and general provision for bad debts	$5,500	$24,314
Bankruptcies - tenants who have filed for creditor protection	5,186	8,093
CECRA application related abatements - April - September 2020	2,762	5,855
Provision for bad debts per the REIT's proportionate share	13,448	38,262
Less: equity accounted investments	(844)	(1,789)
Provision for bad debts per the REIT's Financial Statements	$12,604	$36,473

Provision for Bad Debts	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2020**	2019	Change	**2020**	2019	Change
Bad debts by Same-Asset operating segment:						
Office	**$168**	$40	$128	**$543**	$119	$424
Retail	**12,808**	66	12,742	**35,720**	218	35,502
Industrial	**-**	-	-	**52**	-	52
Residential	**392**	276	116	**1,617**	797	820
Total Same-Asset bad debts	**13,368**	382	12,986	**37,932**	1,134	36,798
Transactions	**80**	50	30	**330**	123	207
Provision for bad debts per the REIT's proportionate share	**13,448**	432	13,016	**38,262**	1,257	37,005
Less: equity accounted investments	**(844)**	8	(852)	**(1,789)**	56	(1,845)
Provision for bad debts per the REIT's Financial Statements	**$12,604**	$440	$12,164	**$36,473**	$1,313	$35,160

H&R has recorded a provision for bad debts as at September 30, 2020 of $36.5 million. The provision for bad debts of $23.9 million as at June 30, 2020 was increased by $12.6 million in Q3 2020. Management anticipates that the increase to the provision for bad debts in Q4 2020 will be smaller than the increase in Q3 2020. Early 2021 may bring further retailer distress, which is difficult to predict in advance. Management is committed to working together with its tenants to ensure the vitality of H&R's shopping centres.

The financial impact of bad debts is one-time in nature, while continuing impacts on rental revenues is covered in the next section addressing tenant closures and lease amendments. These bad debts relate to rental revenues billed but not paid for the reporting period but not future periods. These bad debts include rental abatements agreed to under both the Canada Emergency Commercial Rent Assistance ("CECRA") program and abatements agreed to by management with tenants in distress, as well as unpaid rent from tenants that have filed for protection under Canada's Companies' Creditors Arrangement Act ("CCAA").

Tenant Closures

Many retailers have faced very challenging conditions in recent months. Several have filed for CCAA creditor protection and several have announced store closures. The REIT's focus on maintaining affordable cost structures for its mall-based retailers has resulted in above average rent collections as compared to other large mall owners, and high retention of store locations by tenants planning store closures elsewhere. To date, tenants occupying 136 stores and totalling 328,666 square feet have filed for creditor protection under the CCAA. H&R expects to retain 89 of these stores totalling 219,524 square feet.

H&R REIT continues to work collaboratively with its tenants that have been significantly affected by the pandemic. Retailers undergoing CCAA restructuring has been an area of particular focus for management, where retention of stores has exceeded 65%. Management expects no closures from GAP, H&M, or L Brands in the REIT's portfolio, and the REIT does not have any locations with Brooks Brothers, Lucky Brands, J. Crew, Mendocino, Frank & Oak, Lole or Microsoft Corporation, each of which has announced plans for store closures.

In relation to the REIT's initial 2020 budget of approximately $1.1 billion of gross revenue, Primaris accounted for approximately $285 million. Of that amount, approximately $21.1 million of gross rent is attributable to tenants undergoing restructurings or liquidations. H&R has committed to an annualized rental revenue reduction of approximately $12.2 million as a result of both store closures and lease amendments, at the REIT's share. Store closures, which provide the opportunity to re-lease space to new tenants, account for $6.0 million of this amount, while temporary lease amendments to rental rates for retained tenancies accounts for $6.2 million of this amount.

In restructuring existing leases to accommodate rental rate reductions, while each situation is unique, typical lease amendments include the following characteristics:

1) a limited period of three months to as much as 24 months of reduced gross rent, after which tenants revert to previous lease terms;
2) a lower percentage rent breakpoint during the period of reduced rent, which provides H&R the opportunity to earn additional revenue as sales volumes recover; and
3) no change to all other lease terms, including term, renewal rights and renewal rental rates, with the exception of some instances where H&R secured certain lease amendments, to the benefit of the REIT.

Among the 47 store closures for tenants that have filed for creditor protection under the CCAA aggregating 109,142 square feet across H&R's 13,183,000 square feet retail portfolio, leases have been signed with replacement tenants for 23 stores aggregating 35,672 square feet, with many having commenced occupancy. The rental revenues from these new tenancies are expected to partially offset the annualized $6.0 million reduction in gross revenues relating to store closures, though the magnitude of that offset depends significantly on tenants sales and percentage rent participation. Similarly, the annualized $6.2 million of gross revenue reduction due to temporary lease amendments assumes no percentage rent is collected under the temporary lease terms. In September, average same-store sales from tenants across the Primaris portfolio reached 88% of prior year levels.

Rent Collection

Rent collection has been a key focus during the pandemic, and one where H&R believes it has performed well while also accommodating the needs of its tenants. As of November 9, 2020, H&R's rent collections since the onset of COVID-19 are as follows:

Tenant Type[1]	**Share of Rent**[2]	**Q2 2020 Collection**[2]	**Q3 2020 Collection**[2]	**October Collection**[2]
Office	44%	99%	99%	99%
Retail:				
Enclosed	*21%*	*60%*	*72%*	*83%*
Other	*13%*	*92%*	*94%*	*96%*
Total Retail	*34%*	*72%*	*80%*	*88%*
Residential	16%	97%	97%	96%
Industrial	6%	99%	99%	100%
Total[3]	**100%**	**90%**	**93%**	**95%**

(1) Retail tenants in an office property for the purpose of this table have been classified as retail.
(2) The average share of rent and collections include monthly billings for base rent and property operating costs.
(3) April to September collections include an aggregate amount of $11.8 million received from the Government of Canada under the Canada Emergency Commercial Rent Assistance ("CECRA") program.

H&R's high-quality, long-term leased office portfolio delivered strong rent collection consistent with the profile of the tenant base, as 85.3% of revenues come from investment-grade rated tenants. Rent collection was also strong in H&R's industrial and residential portfolios, reflecting the stronger-than-average credit profile of the REIT's tenant base across both of these portfolios.

H&R achieved an overall rent collection of 95% in October, compared to 93% in Q3 2020 and 90% in Q2 2020.

The tenants that have been impacted the most by the COVID-19 pandemic have been retailers. Rent collection in H&R's retail portfolio reflects a blend of grocery-anchored centres, single tenant and enclosed mall properties. Non-essential stores across the country were closed by government mandates in March. By the end of June all properties, including most stores at enclosed shopping centres, were re-opened, which is reflected in the retail rent collections trending upwards from 72% in Q2 to 80% in Q3. October's collections from the retail portfolio of 88% is without any CECRA subsidies.

The CECRA program for small businesses implemented by the Government of Canada provided forgivable loans to qualifying landlords to cover 50% of six monthly rent payments that were payable by eligible small business tenants who were experiencing financial hardship during April to September. Tenants were responsible for contributing 25% of the rent payments with the landlords abating the remaining 25% share.

H&R filed CECRA applications for 39 properties covering approximately $23.5 million of gross rent at H&R's ownership interest cumulatively for the six month period from April to September. H&R's 25% abatement was approximately $5.9 million and the Government of Canada's 50% received was approximately $11.8 million.

In October 2020, the Government of Canada introduced the Canada Emergency Rent Subsidy ("CERS") which will provide tenants with direct access (without landlord participation) to rent support until June 2021 for qualifying organizations affected by COVID-19. The REIT expects its tenants who qualify will participate in this program which should cover up to 65% of such tenants' eligible expenses.

Liquidity

As at September 30, 2020, H&R had $1.0 billion of unused borrowing capacity available under its lines of credit, $54.4 million of cash on hand and an unencumbered asset pool of approximately $3.5 billion. As at September 30, 2020, H&R had approximately $39.0 million of mortgages maturing during the remainder of 2020.

SUMMARY OF SIGNIFICANT Q3 2020 ACTIVITY

Developments

H&R's active development pipeline in the United States currently comprises five residential developments and one mixed-used development with a total development budget of U.S. $679.3 million. As at September 30, 2020, U.S. $577.8 million had been spent on properties under development with U.S. $101.5 million of budgeted costs remaining to complete of which U.S. $58.9 million will be funded through secured construction facilities, in each case at the REIT's proportionate share.

The largest current development project is River Landing, an urban in-fill mixed use development site in Miami, FL, which is adjacent to the Health District with approximately 1,000 feet of waterfront on the Miami River, two miles from downtown Miami. River Landing includes approximately 346,000 square feet of retail space, approximately 149,000 square feet of office space and 528 residential rental units. Retail occupancy has commenced and as at November 6, 2020, eight stores were opened including Hobby Lobby, Burlington, Publix Super Markets Inc., Ross Stores Inc., Five Below, Chase Bank, AT&T and Old Navy totalling 206,365 square feet. The centre will also welcome TJ Maxx, Planet Fitness, Ulta Cosmetics, Chick-fil-A, Ficelle Patisserie & Boulangerie, Sapphira Prive Med-Spa, and The Pediatric Dental Center of River Landing, whose stores are all expected to open in Q1/Q2 2021. The remaining retail and office lease-up is expected to occur during the balance of 2020 and 2021. The retail component of this development is expected to be transferred from properties under development to investment properties in Q4 2020. As at November 6, 2020, 91 residential leases have been entered into exceeding management's expectations on leasing velocity. The total cost of the project is expected to be approximately U.S. $495.9 million. Construction is nearing completion and as at September 30, 2020, approximately U.S. $446.9 million has been included in properties under development.

Construction continued on the first phase of a 2.7 million square foot industrial development in Caledon, ON. The first phase consists of three buildings, which will total approximately 526,000 square feet upon completion. In January 2020, H&R completed a 10-year lease with Deutsche Post AG to occupy the largest of the three buildings totalling 342,821 square feet. Rent payments are expected to commence on November 14, 2020. The total budget for this building is $54.6 million. As a result of COVID-19, H&R has temporarily suspended construction of the second and third buildings.

In July 2020, H&R purchased 15.4 acres of land in Mississauga, ON for $18.7 million which is expected to be developed into two industrial buildings totalling approximately 329,000 square feet.

Office

Same-Asset property operating income (cash basis) from office properties increased by 2.0% for the three months ended September 30, 2020 compared to the respective 2019 period, primarily due to contractual rental escalations and an increase in occupancy.

Industrial

Same-Asset property operating income (cash basis) from industrial properties increased by 7.4% for the three months ended September 30, 2020 compared to the respective 2019 period, primarily due to an increase in occupancy and rental rates.

Residential

Same-Asset property operating income (cash basis) from residential properties in U.S. dollars decreased by 12.7% for the three months ended September 30, 2020 compared to the respective 2019 period, primarily due to Jackson Park in New York, which has been negatively impacted by lower than average lease renewals and apartment traffic due to COVID-19. H&R believes this decline is temporary and expects operating fundamentals to improve in the upcoming quarters. Excluding Jackson Park, Same-Asset property operating income (cash basis) from residential properties in U.S. dollars increased by 4.1% for the three months ended September 30, 2020 compared to the respective 2019 period.

Retail

Same-Asset property operating income (cash basis) from retail properties decreased by 15.7% for the three months ended September 30, 2020 compared to the respective 2019 period, primarily due to the provision for bad debts as a result of the impact of COVID-19. Excluding the provision for bad debts, Same-Asset property operating income increased by 5.3% which was primarily due to an increase in occupancy due to the re-leasing of the former Target and Sears premises.

Debt Highlights

As at September 30, 2020, debt to total assets was 47.2%, an improvement from 48.1% last quarter but an increase compared to 44.4% as at December 31, 2019. This is primarily due to the fair value adjustment of certain office and retail properties recognized in Q1 2020 of approximately $1.3 billion. The weighted average interest rate of H&R's debt as at September 30, 2020 was 3.6% with an average term to maturity of 3.7 years.

Tom Hofstedter
President and Chief Executive Officer
November 12, 2020

Unaudited condensed consolidated interim financial statements of

H&R REAL ESTATE INVESTMENT TRUST

For the three and nine months ended September 30, 2020 and 2019

H&R REAL ESTATE INVESTMENT TRUST

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

	Note	**September 30 2020**	December 31 2019
		(Unaudited)	
Assets			
Real estate assets:			
Investment properties	*3*	**$ 10,705,954**	$ 11,988,347
Properties under development	*3*	**833,937**	683,145
		11,539,891	12,671,492
Equity accounted investments	*4*	**1,026,329**	1,002,773
Assets classified as held for sale	*5*	**219,450**	135,673
Other assets	*6*	**453,861**	624,764
Cash and cash equivalents	*7*	**54,436**	48,640
		$ 13,293,967	$ 14,483,342
Liabilities and Unitholders' Equity			
Liabilities:			
Debt	*8*	**$ 6,278,568**	$ 6,375,860
Exchangeable units	*9*	**143,919**	323,173
Deferred tax liability	*18*	**372,143**	409,381
Accounts payable and accrued liabilities	*10*	**343,799**	281,595
Liabilities classified as held for sale	*5*	**-**	49,416
		7,138,429	7,439,425
Unitholders' equity		**6,155,538**	7,043,917
Commitments and contingencies	*20*		
Subsequent events	*8(d), 21*		
		$ 13,293,967	$ 14,483,342

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 (Loss)
(In thousands of Canadian dollars)

		Three months ended September 30		Nine months ended September 30	
	Note	**2020**	2019	**2020**	2019
Property operating income:					
Rentals from investment properties	*14*	**$ 271,612**	$ 281,571	**$ 821,171**	$ 867,229
Property operating costs		**(95,841)**	(96,327)	**(341,121)**	(341,029)
		175,771	185,244	**480,050**	526,200
Net income (loss) from equity accounted investments	*4*	**9,195**	(18,414)	**27,711**	(5,757)
Finance cost - operations	*15*	**(56,894)**	(64,216)	**(171,994)**	(195,389)
Finance income	*15*	**8,914**	4,949	**26,268**	9,024
Trust expenses		**(4,884)**	(8,423)	**(4,357)**	(35,665)
Fair value adjustment on financial instruments	*15*	**1,721**	(4,760)	**127,058**	(62,090)
Fair value adjustment on real estate assets	*3*	**93,000**	(25,258)	**(1,265,918)**	(60,214)
Gain (loss) on sale of real estate assets, net of related costs	*3*	**20**	1,800	**(2,167)**	25,643
Net income (loss) before income taxes		**226,843**	70,922	**(783,349)**	201,752
Income tax (expense) recovery	*18*	**21,006**	(1,621)	**47,146**	(24,865)
Net income (loss)		**247,849**	69,301	**(736,203)**	176,887
Other comprehensive income (loss):					
Items that are or may be reclassified subsequently to net income (loss)	*13*	**(70,610)**	20,157	**59,645**	(81,408)
Total comprehensive income (loss) attributable to unitholders		**$ 177,239**	$ 89,458	**$ (676,558)**	$ 95,479

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

H&R REAL ESTATE INVESTMENT TRUST

Unaudited Condensed Consolidated 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, 2019		$ 5,366,464	$ 5,558,062	$ (4,096,250)	$ 371,824	$ 7,200,100
Proceeds from issuance of Units		8,587	-	-	-	8,587
Net income		-	176,887	-	-	176,887
Distributions to unitholders		-	-	(295,496)	-	(295,496)
Other comprehensive loss		-	-	-	(81,408)	(81,408)
Unitholders' equity, September 30, 2019		5,375,051	5,734,949	(4,391,746)	290,416	7,008,670
Proceeds from issuance of Units		14,448	-	-	-	14,448
Net income		-	163,402	-	-	163,402
Distributions to unitholders		-	-	(98,685)	-	(98,685)
Other comprehensive loss		-	-	-	(43,918)	(43,918)
Unitholders' equity, December 31, 2019		5,389,499	5,898,351	(4,490,431)	246,498	7,043,917
Proceeds from issuance of Units		**2,267**	**-**	**-**	**-**	**2,267**
Net loss		**-**	**(736,203)**	**-**	**-**	**(736,203)**
Distributions to unitholders		**-**	**-**	**(214,088)**	**-**	**(214,088)**
Other comprehensive income	***13***	**-**	**-**	**-**	**59,645**	**59,645**
Unitholders' equity, September 30, 2020		**$ 5,391,766**	**$ 5,162,148**	**$ (4,704,519)**	**$ 306,143**	**$ 6,155,538**

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 2020	2019
Cash provided by (used in):			
Operations:			
Net income (loss)		**$ (736,203)**	$ 176,887
Finance cost - operations	*15*	**171,994**	195,389
Interest paid		**(178,241)**	(203,610)
Items not affecting cash:			
Net (income) loss from equity accounted investments	*4*	**(27,711)**	5,757
Rent amortization of tenant inducements	*14*	**1,486**	1,752
Fair value adjustment on real estate assets	*3*	**1,265,918**	60,214
IFRIC 21 realty tax adjustment	*3*	**11,069**	11,173
(Gain) loss on sale of real estate assets, net of related costs	*3*	**2,167**	(25,643)
Fair value adjustment on financial instruments	*15*	**(127,058)**	62,090
Unit-based compensation expense (recovery)	*12(a)*	**(14,408)**	22,170
Deferred income taxes (recovery)	*18*	**(47,388)**	24,716
Change in other non-cash operating items	*16*	**(11,749)**	(20,119)
		309,876	310,776
Investing:			
Properties under development:			
Acquisitions	*3*	**(20,847)**	(14,595)
Additions	*3, 16*	**(104,828)**	(161,767)
Investment properties:			
Net proceeds on disposition of real estate assets		**95,981**	607,824
Acquisitions	*3*	**(21,979)**	(188,113)
Redevelopment	*3, 16*	**(57,267)**	(98,067)
Capital expenditures	*3*	**(38,501)**	(42,987)
Leasing expenses and tenant inducements	*3*	**(9,618)**	(26,808)
Equity accounted investments, net		**8,828**	248,900
Mortgages receivable, net		**216,056**	(20,627)
Restricted cash	*6*	**(10,163)**	1,961
		57,662	305,721
Financing:			
Unsecured term loans	*8(d)*	**-**	250,000
Lines of credit	*8(d)*	**(261,372)**	(66,002)
Mortgages payable:			
New mortgages payable	*8(a)*	**175,421**	128,159
Principal repayments	*8(a)*	**(121,979)**	(269,046)
Redemption of debentures payable	*8(b)*	**(337,500)**	(350,000)
Proceeds from issuance of debentures payable	*8(b)*	**397,900**	-
Proceeds from issuance of Units		**(124)**	6,296
Distributions to unitholders		**(214,088)**	(295,496)
		(361,742)	(596,089)
Increase in cash and cash equivalents		**5,796**	20,408
Cash and cash equivalents, beginning of year	*7*	**48,640**	53,073
Cash and cash equivalents, end of period	*7*	**$ 54,436**	$ 73,481

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

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 commercial and residential properties across Canada and in the United States. The REIT's units ("Units") are listed and posted for trading on the Toronto Stock Exchange ("TSX") under the symbol HR.UN. The principal office and centre of administration of the REIT is located at 3625 Dufferin Street, Suite 500, Toronto, Ontario M3K 1N4. Unitholders of the REIT participate pro rata in distributions and, in the event of termination of the REIT, participate pro rata in the net assets remaining after satisfaction of all liabilities.

Countries around the world have been affected by the COVID-19 virus, which was declared a pandemic by The World Health Organization on March 11, 2020. This pandemic has placed restrictive boundaries on how businesses can operate, requiring social distancing measures. While the REIT continues to operate, it is unclear what impact this pandemic will have on its tenants going forward.

The outbreak of COVID-19 has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility and weakness. The governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The duration and full impact of the COVID-19 pandemic on H&R is unknown at this time, as is the efficacy of the government's interventions. The extent of the effect of COVID-19 on the REIT's operational and financial performance will depend on numerous factors including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering that the situation continues to evolve. As a result, it is not currently possible to ascertain the long term impact of COVID-19 on the REIT's business and operations. Certain aspects of the REIT's business and operations that could potentially be impacted include rental income, occupancy, tenant inducements, future demand for space and market rents. The REIT will continue to review its future cash flow projections and the valuation of its properties in light of the COVID-19 pandemic. The carrying value for the REIT's investment properties reflects its best estimate for the highest and best use as at September 30, 2020 (note 3).

1. Basis of preparation:

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. The December 31, 2019 comparative financial information has been derived from the December 31, 2019 audited annual consolidated financial statements.

The unaudited condensed consolidated interim financial statements were approved by the Board of Trustees of the REIT on November 12, 2020.

(b) Functional currency and presentation

These 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.

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) 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 these 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, 2019.

3. Real estate assets:

		September 30, 2020	
	Note	**Investment Properties**	**Properties Under Development**
Opening balance, beginning of year		**$ 11,988,347**	**$ 683,145**
Acquisitions, including transaction costs		**21,979**	**20,847**
Transfer of investment property from equity accounted investments	*16*	**15,665**	**-**
Dispositions		**(22,145)**	**-**
Transfer of investment properties to assets classified as held for sale		**(219,450)**	**-**
Operating capital:			
Capital expenditures		**38,501**	**-**
Leasing expenses and tenant inducements		**9,618**	**-**
Development capital:			
Redevelopment (including capitalized interest)		**60,374**	**-**
Additions to properties under development (including capitalized interest)		**-**	**117,473**
Amortization of tenant inducements and straight-lining of contractual rents		**6,830**	**-**
Change in right-of-use asset[(1)]		**-**	**(709)**
Fair value adjustment on real estate assets		**(1,265,918)**	**-**
Change in foreign exchange		**83,222**	**13,181**
IFRIC 21-realty tax adjustment		**(11,069)**	**-**
Closing balance, end of period		**$ 10,705,954**	**$ 833,937**

(1) As at September 30, 2020, the right-of-use asset in a leasehold interest of $32,031 was measured at an amount equal to the corresponding lease liability (note 10).

Asset acquisitions:

During the nine months ended September 30, 2020, the REIT acquired two industrial properties and one industrial property under development (year ended December 31, 2019 - acquired two residential properties, one industrial property and two properties under development). The results of operations for these acquisitions are included in these unaudited condensed consolidated interim financial statements from the date of acquisition.

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

	September 30 2020	December 31 2019
Assets		
Investment properties	**$ 21,950**	$ 188,375
Properties under development	**20,847**	14,595
	$ 42,797	$ 202,970

During the nine months ended September 30, 2020, the REIT incurred additional costs of $29 (year ended December 31, 2019 - $79) in respect of prior year acquisitions which are not included in the above table.

3. Real estate assets (continued):

Asset dispositions:

During the nine months ended September 30, 2020, the REIT sold two residential properties, two retail properties and a 50% ownership interest in one industrial property and recognized, in aggregate, a loss on sale of real estate assets of $2,167 (three months ended September 30, 2020 - gain on sale of real estate assets of $20).

During the nine months ended September 30, 2019, the REIT sold two office properties, one residential property, two retail properties, a 50% ownership interest in one industrial property and a parcel of land adjacent to the REIT's head office and recognized, in aggregate, a gain on sale of real estate assets of $25,643 (three months ended September 30, 2019 - $1,800).

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 each reporting period, less future cash outflows in respect of such leases and capital expenditures for the property utilizing appropriate discount rates and terminal capitalization rates, generally over a projection period of ten years;

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

(iii) Consideration of recent sales of similar properties within similar market areas.

During the nine months ended September 30, 2020, certain properties were valued by professional external independent appraisers. When an external independent appraisal is obtained, the REIT's internal valuation team assesses the significant assumptions used in the independent appraisal and holds discussions with the external independent appraiser on the reasonableness of their assumptions. The appraisals are used by the internal valuation team for consideration in preparing the valuations reported in these unaudited condensed consolidated interim financial statements. Properties with external independent appraisals represent 13.9% of the fair value of investment properties as at September 30, 2020 (year ended December 31, 2019 - 37.1%). The properties that were externally appraised are selected by management to form a representative cross section of the REIT's portfolio based on size, geography and the availability of market data. In addition, external independent appraisals are often obtained for properties acquired or for mortgage financing purposes.

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

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

	Capitalization Rates			**Discount Rates**			**Terminal Capitalization Rates**		
	Canada	United States	Total	Canada	United States	Total	Canada	United States	Total
September 30, 2020	**6.74%**	**5.51%**	**6.35%**	**7.61%**	**6.55%**	**7.27%**	**7.01%**	**5.95%**	**6.67%**
December 31, 2019	5.84%	5.34%	5.69%	6.70%	6.38%	6.61%	6.08%	5.77%	5.99%

The assumptions used in determining the fair value of investment properties were changed as a result of COVID-19. H&R applied higher discount rates to its office properties leased to oil and gas tenants as the industry has experienced significant declines in commodity prices. The retail industry (mainly H&R's enclosed shopping centres) has also experienced significant hardship with all non-essential stores being closed for a significant period of time. H&R applied higher discount rates as well as revised leasing assumptions to its retail properties in enclosed shopping centres.

3. Real estate assets (continued):

Fair value sensitivity:

The REIT's investment properties are classified as level 3 under the fair value hierarchy, as the inputs in the valuations of these investment properties are not based on observable market data. The following table provides a sensitivity analysis for the weighted average capitalization rate applied as at September 30, 2020:

Capitalization Rate Sensitivity Increase (Decrease)	Capitalization Rate	Fair Value of Investment Properties	Fair Value Variance	% Change
(0.75%)	5.60%	$ 12,139,787	$ 1,433,833	13.39%
(0.50%)	5.85%	$ 11,620,993	$ 915,039	8.55%
(0.25%)	6.10%	$ 11,144,723	$ 438,769	4.10%
September 30, 2020	**6.35%**	**$ 10,705,954**	**$ -**	**0.00%**
0.25%	6.60%	$ 10,300,425	$ (405,529)	(3.79%)
0.50%	6.85%	$ 9,924,498	$ (781,456)	(7.30%)
0.75%	7.10%	$ 9,575,043	$ (1,130,911)	(10.56%)

4. Equity accounted investments:

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

During the nine months ended September 30, 2020, the REIT: (i) disposed of one industrial property; and (ii) purchased the remaining 49.5% ownership interest in one industrial property previously held in a joint venture. As the REIT now owns 100% of the property that was previously held in a joint venture, it is consolidated in these unaudited condensed consolidated interim financial statements.

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

4. Equity accounted investments (continued):

			Ownership interest	
			September 30	December 31
	Location	**Principal activity**	**2020**	2019
Investments in joint ventures:[1]				
One industrial property (2019 - three)	United States	Own and operate investment property	**50.5%**	50.5%
Hercules Project	United States	Develop, own and operate investment property	**31.7%**	31.7%
The Pearl	United States	Develop, own and operate investment property	**33.3%**	33.3%
Esterra Park	United States	Develop, own and operate investment property	**33.3%**	33.3%
Shoreline	United States	Develop, own and operate investment property	**31.2%**	31.2%
Investments in associates:[2]				
ECHO Realty LP ("ECHO")	United States	Own and operate investment properties	**33.6%**	33.6%
LIC Operator Co., L.P. ("Jackson Park")	United States	Own and operate investment property	**50.0%**	50.0%

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

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

Equity accounted investments in:	**September 30, 2020**				December 31, 2019			
	----Associates----		**Joint Ventures**		----Associates----		Joint Ventures	
	ECHO	**Jackson Park**	**(1)**	**Total**	ECHO	Jackson Park	(1)	Total
Investment properties[2]	**$ 2,613,484**	**$ 2,128,000**	**$ 31,920**	**$ 4,773,404**	$ 2,493,118	$ 2,080,000	$ 71,500	$ 4,644,618
Properties under development	**73,660**	**-**	**593,059**	**666,719**	67,898	-	385,070	452,968
Assets classified as held for sale	**-**	**-**	**-**	**-**	38,316	-	-	38,316
Other assets	**46,399**	**11,843**	**1,378**	**59,620**	60,753	12,471	459	73,683
Cash and cash equivalents	**28,821**	**41,227**	**25,861**	**95,909**	28,778	45,515	11,777	86,070
Debt	**(1,066,492)**	**(1,312,167)**	**(261,205)**	**(2,639,864)**	(1,049,882)	(1,281,120)	(83,606)	(2,414,608)
Accounts payable and accrued liabilities	**(65,303)**	**(19,400)**	**(58,359)**	**(143,062)**	(66,168)	(37,364)	(39,593)	(143,125)
Lease liability[2]	**(127,245)**	**-**	**-**	**(127,245)**	(129,538)	-	-	(129,538)
Non-controlling interest	**(71,119)**	**-**	**-**	**(71,119)**	(70,144)	-	-	(70,144)
Net assets	**1,432,205**	**849,503**	**332,654**	**2,614,362**	1,373,131	819,502	345,607	2,538,240
REIT's share of net assets	**$ 488,878**	**$ 425,098**	**$ 112,353**	**$ 1,026,329**	$ 468,857	$ 410,087	$ 123,829	$ 1,002,773

(1) The REIT's investments in joint ventures are comprised of: one industrial property (2019 - three) and four residential properties under development.
(2) As at September 30, 2020, the total fair value of investment properties, within equity accounted investments, net of the lease liability is $4,646,159 (December 31, 2019 - $4,515,080).

ECHO reports its financial position to the REIT one month in arrears due to time constraints on its reporting. Therefore, the above amounts include ECHO's financial information as at August 31, 2020 and November 30, 2019, respectively.

4. Equity accounted investments (continued):

Net income (loss) from equity accounted investments in:	Three months ended September 30, 2020 ----Associates---- ECHO	Jackson Park	Joint Ventures (1)	Total	Three months ended September 30, 2019 ----Associates---- ECHO	Jackson Park	Joint Ventures (1)	Total
Rentals from investment properties	**$ 53,817**	**$ 20,115**	**$ 971**	**$ 74,903**	$ 52,971	$ 26,287	$ 1,321	$ 80,579
Property operating costs	**(9,737)**	**(10,725)**	**46**	**(20,416)**	(8,448)	(7,466)	(22)	(15,936)
Net income from equity accounted investments	**453**	**-**	**-**	**453**	283	-	-	283
Finance income	**103**	**-**	**64**	**167**	317	-	39	356
Finance cost - operations	**(11,698)**	**(11,542)**	**-**	**(23,240)**	(13,371)	(9,955)	(1)	(23,327)
Trust expenses	**(2,646)**	**-**	**(71)**	**(2,717)**	(2,360)	-	(28)	(2,388)
Fair value adjustment on financial instruments	**610**	**-**	**-**	**610**	(4,130)	(1,082)	-	(5,212)
Fair value adjustment on real estate assets	**(6,688)**	**4,679**	**(107)**	**(2,116)**	(16,848)	(49,737)	(1,097)	(67,682)
Gain (loss) on sale of real estate assets	**(637)**	**-**	**(593)**	**(1,230)**	31	-	(74)	(43)
Income tax (expense) recovery	**(208)**	**(18)**	**110**	**(116)**	1	(17)	(27)	(43)
Net income (loss)	**23,369**	**2,509**	**420**	**26,298**	8,446	(41,970)	111	(33,413)
Net income attributable to non-controlling interest	**(327)**	**-**	**-**	**(327)**	(960)	-	-	(960)
Net income (loss) attributable to owners	**23,042**	**2,509**	**420**	**25,971**	7,486	(41,970)	111	(34,373)
REIT's share of net income (loss) attributable to unitholders	**$ 7,741**	**$ 1,254**	**$ 200**	**$ 9,195**	$ 2,515	$ (20,985)	$ 56	$ (18,414)

(1) The REIT's investments in joint ventures are comprised of: one industrial property (three months ended September 30, 2019 - three) and four residential properties under development. The REIT's share of net income from joint ventures was earned from its investment in one industrial property (three months ended September 30, 2019 - three).

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, 2020 to August 31, 2020 and June 1, 2019 to August 31, 2019, respectively.

4. Equity accounted investments (continued):

Net income (loss) from equity accounted investments in:	Nine months ended September 30, 2020 ----Associates---- ECHO	Jackson Park	Joint Ventures (1)	Total	Nine months ended September 30, 2019 ----Associates---- ECHO	Jackson Park	Joint Ventures (1)	Total
Rentals from investment properties	**$ 163,650**	**$ 74,513**	**$ 3,503**	**$ 241,666**	$ 162,640	$ 67,970	$ 7,107	$ 237,717
Property operating costs	**(42,112)**	**(26,714)**	**(347)**	**(69,173)**	(38,592)	(19,933)	(858)	(59,383)
Net income from equity accounted investments	**1,024**	**-**	**-**	**1,024**	1,493	-	-	1,493
Finance income	**533**	**-**	**206**	**739**	825	1,547	139	2,511
Finance cost - operations	**(36,951)**	**(34,898)**	**-**	**(71,849)**	(40,687)	(29,119)	(930)	(70,736)
Trust expenses	**(9,113)**	**-**	**(82)**	**(9,195)**	(8,586)	-	(129)	(8,715)
Fair value adjustment on financial instruments	**(5,445)**	**-**	**-**	**(5,445)**	(9,525)	(8,604)	-	(18,129)
Fair value adjustment on real estate assets	**(5,942)**	**1,067**	**(1,253)**	**(6,128)**	(14,071)	(52,106)	(5,160)	(71,337)
Loss on sale of real estate assets	**(4,017)**	**-**	**(914)**	**(4,931)**	(498)	-	(4,852)	(5,350)
Income tax (expense) recovery	**(103)**	**(18)**	**335**	**214**	(194)	(34)	66	(162)
Net income (loss)	**61,524**	**13,950**	**1,448**	**76,922**	52,805	(40,279)	(4,617)	7,909
Net income attributable to non-controlling interest	**(1,870)**	**-**	**-**	**(1,870)**	(2,779)	-	-	(2,779)
Net income (loss) attributable to owners	**59,654**	**13,950**	**1,448**	**75,052**	50,026	(40,279)	(4,617)	5,130
REIT's share of net income (loss) attributable to unitholders	**$ 20,040**	**$ 6,975**	**$ 696**	**$ 27,711**	$ 16,804	$ (20,139)	$ (2,422)	$ (5,757)

(1) The REIT's investments in joint ventures are comprised of: one industrial property (nine months ended September 30, 2019 - three) and four residential properties under development. The REIT's share of net income from joint ventures was earned from its investment in one industrial property (nine months ended September 30, 2019 - three).

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, 2019 to August 31, 2020 and December 1, 2018 to August 31, 2019, respectively.

5. Assets and liabilities classified as held for sale:

As at September 30, 2020, the REIT had one U.S. office property (December 31, 2019 - two U.S. residential properties and a 50% interest in one industrial property) classified as held for sale.

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

	September 30 2020	December 31 2019
Assets		
Investment properties	**$ 219,450**	$ 133,905
Restricted cash	**-**	1,768
	$ 219,450	$ 135,673
Liabilities		
Mortgage payable	**$ -**	$ 49,416

6. Other assets:

	Note	**September 30 2020**	December 31 2019
Mortgages receivable[1]		**$ 344,808**	$ 555,030
Prepaid expenses and sundry assets		**70,746**	49,691
Accounts receivable[2] - net of provision for bad debts of $36,473 (2019 - $2,143)		**20,213**	11,360
Restricted cash		**18,094**	7,931
Derivative instruments	*11*	**-**	752
		$ 453,861	$ 624,764

(1) Mortgages receivable include $240,651 classified as FVTPL and $104,157 classified as amortized cost (December 31, 2019 - $227,332 and $327,698, respectively). As at September 30, 2020, mortgages receivable bear interest at effective rates between 4.40% and 14.32% per annum (December 31, 2019 - between 3.25% and 14.32% per annum) with a weighted average effective rate of 9.78% per annum (December 31, 2019 - 7.06%), and mature between 2021 and 2029 (December 31, 2019 - mature between 2020 and 2029).

(2) The following table discloses H&R's September 30, 2020 provision for bad debts as a result of the impact of COVID-19:

Expected rent abatements and general provision for bad debts	**$ 22,525**
Bankruptcies - tenants who have filed for creditor protection	**8,093**
Canada Emergency Commercial Rent Assistance (CECRA) applications - April to September 2020	**5,855**
Total provision for bad debts	**$ 36,473**

7. Cash and cash equivalents:

Cash and cash equivalents at September 30, 2020 includes cash on hand of $54,165 (December 31, 2019 - $48,370) and bank term deposits of $271 (December 31, 2019 - $270) bearing interest at a rate of 0.13% (December 31, 2019 - 1.61%).

Included in cash and cash equivalents at September 30, 2020 are U.S. dollar denominated amounts of U.S. $27,012 (December 31, 2019 - U.S. $21,620). The Canadian equivalent of these amounts is $35,926 (December 31, 2019 - $28,106).

8. Debt:

The REIT's debt consists of the following items:

	Note	**September 30 2020**	December 31 2019
Mortgages payable	*8(a)*	**$ 3,717,712**	$ 3,630,858
Debentures payable	*8(b)*	**1,319,492**	1,257,731
Unsecured term loans	*8(c)*	**696,429**	692,229
Lines of credit	*8(d)*	**544,935**	795,042
		$ 6,278,568	$ 6,375,860

(a) Mortgages payable:

The mortgages payable are secured by 113 real estate assets with an aggregate fair value of $7,906,676, bear interest at fixed rates with a contractual weighted average rate of 4.04% (December 31, 2019 - 4.08%) per annum and mature between 2020 and 2032 (December 31, 2019 - maturing between 2020 and 2032). Included in mortgages payable at September 30, 2020 are U.S. dollar denominated mortgages of U.S. $1,061,372 (December 31, 2019 - U.S. $1,045,921). The Canadian equivalent of these amounts is $1,411,625 (December 31, 2019 - $1,359,697).

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 2020
Years ending December 31:	
2020*	**$ 71,765**
2021	**941,221**
2022	**612,921**
2023	**457,859**
2024	**60,523**
2025	**152,899**
Thereafter	**1,434,550**
	3,731,738
Financing costs and mark-to-market adjustment arising on acquisitions	**(14,026)**
	$ 3,717,712

* For the balance of the year.

8. Debt (continued):

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

	Note	**September 30 2020**	December 31 2019
Opening balance, beginning of year		**$ 3,630,858**	$ 4,150,459
Principal repayments:			
Scheduled amortization on mortgages		**(89,745)**	(123,651)
Mortgage repayments		**(32,234)**	(494,038)
New mortgages		**175,421**	224,631
Mortgage reclassified to liabilities held for sale	5	**-**	(49,416)
Effective interest rate accretion on mortgages		**1,876**	2,552
Change in foreign exchange		**31,536**	(79,679)
Closing balance, end of period		**$ 3,717,712**	$ 3,630,858

(b) Debentures payable:

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

					September 30 2020	December 31 2019
	Maturity	**Contractual interest rate**	**Effective interest rate**	**Principal amount**	**Carrying value**	Carrying value
Senior Debentures						
Series P Senior Debentures[1]	February 13, 2020	3.67%	[1]	$ -	**$ -**	$ 162,469
Series F Senior Debentures[2]	March 2, 2020	4.45%	4.58%	-	**-**	174,954
Series L Senior Debentures	May 6, 2022	2.92%	3.11%	325,000	**323,535**	322,862
Series O Senior Debentures	January 23, 2023	3.42%	3.44%	250,000	**249,285**	249,065
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	**348,662**	348,381
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	**398,010**	-
		3.48%	3.59%	$ 1,325,000	**$ 1,319,492**	$ 1,257,731

(1) Denominated as $125,000 U.S. dollars and bore interest at a rate equal to the 3-month London Interbank Offered Rate plus 79 basis points. The REIT entered into an interest rate swap on the Series P senior debentures to fix the interest rate at 3.67% per annum (note 11). In February 2020, the REIT repaid all of its Series P senior debentures upon maturity for a cash payment of U.S. $125,000.

(2) In March 2020, the REIT repaid all of its Series F senior debentures upon maturity for a cash payment of $175,000.

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

Senior Debentures	Interest Payment Dates
Series L	May 6 and November 6
Series N	January 30 and July 30
Series O	January 23 and July 23
Series Q	June 16 and December 16

8. Debt (continued):

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

	September 30 2020	December 31 2019
Senior Debentures		
Carrying value, beginning of year	**$ 1,257,731**	$ 1,613,040
Redemption - Series M Senior Debentures	**-**	(150,000)
Redemption - Series K Senior Debentures	**-**	(200,000)
Redemption - Series P Senior Debentures	**(162,500)**	-
Redemption - Series F Senior Debentures	**(175,000)**	-
Issuance - Series Q Senior Debentures	**397,900**	-
Change in foreign exchange	**-**	(7,500)
Accretion adjustment	**1,361**	2,191
Carrying value, end of period	**$ 1,319,492**	$ 1,257,731

(c) Unsecured term loans:

The REIT has the following unsecured term loans:

	Maturity Date	**September 30 2020**	December 31 2019
H&R REIT unsecured term loan #1[(1)]	March 17, 2021	**$ 196,429**	$ 192,229
H&R REIT unsecured term loan #2[(2)]	March 7, 2024	**250,000**	250,000
H&R REIT unsecured term loan #3[(3)]	January 6, 2026	**250,000**	250,000
		$ 696,429	$ 692,229

(1) The total facility as at September 30, 2020 is $200,000, plus a 3% allowance relating to the fluctuation of the foreign exchange rate, and can be drawn in either Canadian or U.S. dollars. The REIT entered into an interest rate swap to fix the interest rate at 2.56% per annum on U.S. $130,000 of the U.S. dollar denominated borrowing of this facility. The swap matures on March 17, 2021 (note 11).

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

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

Included in unsecured term loans at September 30, 2020, are U.S. denominated amounts of $140,000 (December 31, 2019 - U.S. $140,000). The Canadian equivalent of these amounts is $186,200 (December 31, 2019 - $182,000).

8. Debt (continued):

(d) Lines of credit:

The REIT has the following lines of credit:

	Maturity Date	Total Facility	Amount Drawn	Outstanding Letters of Credit	Available Balance
Revolving unsecured operating lines of credit:					
H&R REIT revolving unsecured line of credit #1	April 17, 2021	$ 500,000	$ -	$ -	$ 500,000
H&R REIT revolving unsecured line of credit #2	September 20, 2022	150,000	(144,975)	-	5,025
H&R REIT revolving unsecured line of credit #3	January 31, 2023	200,000	(115,710)	-	84,290
H&R REIT revolving unsecured line of credit #4	September 20, 2023	350,000	-	(1,985)	348,015
H&R REIT revolving unsecured letter of credit facility		60,000	-	(30,922)	29,078
Sub-total		1,260,000	(260,685)	(32,907)	966,408
Revolving secured operating lines of credit[1]:					
H&R REIT and CrestPSP revolving secured line of credit[2]	April 30, 2021	62,500	(51,500)	(105)	10,895
Primaris revolving secured line of credit	December 31, 2021	300,000	(232,750)	-	67,250
Sub-total		362,500	(284,250)	(105)	78,145
September 30, 2020		**$ 1,622,500**	**$ (544,935)**	**$ (33,012)**	**$ 1,044,553**
December 31, 2019		$ 1,122,500	$ (795,042)	$ (36,881)	$ 290,577

(1) Secured by certain investment properties.

(2) In October 2020, the revolving secured line of credit agreement was amended to extend the maturity date from October 30, 2020 to April 30, 2021.

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

Included in lines of credit at September 30, 2020 are U.S. dollar denominated amounts of U.S. $369,500 (December 31, 2019 - U.S. $375,500). The Canadian equivalent of these amounts is $491,435 (December 31, 2019 - $488,150).

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

	September 30, 2020		December 31, 2019	
	Unsecured Term Loans	**Lines of Credit**	Unsecured Term Loans	Lines of Credit
Opening balance, beginning of year	**$ 692,229**	**$ 795,042**	$ 450,629	$ 331,944
Net advances (repayments)	**-**	**(261,372)**	250,000	463,878
Change in foreign exchange	**4,200**	**11,265**	(8,400)	(780)
Closing balance, end of period	**$ 696,429**	**$ 544,935**	$ 692,229	$ 795,042

9. Exchangeable units:

Certain of the REIT's subsidiaries have in aggregate 14,883,065 (December 31, 2019 - 15,316,239) exchangeable units outstanding which are puttable instruments where, upon redemption, the REIT has a contractual obligation to issue Units. In August 2020, 433,174 exchangeable units were exchanged for Units. As a subsidiary of the REIT previously held 433,174 Units to mirror these exchangeable units, the number of outstanding Units did not increase as a result of this exchange. Holders of all exchangeable units are entitled to receive the economic equivalence of distributions on a per unit amount equal to a per Unit amount provided to holders of Units. These puttable instruments are classified as a liability under IFRS and are measured at fair value through profit or loss. 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, 2020 was $9.67 (December 31, 2019 - $21.10) per Unit.

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

	September 30 2020	December 31 2019
Carrying value, beginning of year	**$ 323,173**	$ 329,482
Exchanged for Units	**(4,228)**	(14,448)
(Gain) loss on fair value of exchangeable units	**(175,026)**	8,139
Carrying value, end of period	**$ 143,919**	$ 323,173

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

10. Accounts payable and accrued liabilities:

	Note	**September 30 2020**	December 31 2019
Current:			
Other accounts payable and accrued liabilities		**$ 175,063**	$ 145,985
Distributions payable		**17,350**	-
Debt interest payable		**30,962**	23,282
Prepaid rent		**33,096**	41,564
Derivative instruments	*11*	**43,230**	9,352
Unit-based compensation payable:			
Options	*12(a)*	**-**	12,016
Incentive units	*12(a)*	**2,537**	4,576
Non-current:			
Lease liability[(1)]		**32,031**	32,002
Security deposits		**6,411**	5,890
Unit-based compensation payable:			
Incentive units	*12(a)*	**3,119**	6,928
		$ 343,799	$ 281,595

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

11. Derivative instruments:

		Fair value asset (liability)*		Net gain (loss) on derivative instruments		Net gain (loss) on derivative instruments	
				Three months ended September 30		Nine months ended September 30	
		September 30	December 31				
		2020	2019	**2020**	2019	**2020**	2019
Debenture interest rate swap	(1)	**$ -**	$ -	**$ -**	$ -	**$ -**	$ (592)
Debenture interest rate swap	(2)	**-**	(404)	**-**	184	**404**	(333)
Term loan interest rate swap	(3)	**(968)**	752	**470**	(476)	**(1,720)**	(3,949)
Term loan interest rate swap	(4)	**(19,763)**	(2,777)	**802**	36	**(16,986)**	(8,337)
Term loan interest rate swap	(5)	**(22,499)**	(6,171)	**825**	123	**(16,328)**	(9,309)
		$ (43,230)	$ (8,600)	**$ 2,097**	$ (133)	**$ (34,630)**	$ (22,520)

The REIT entered into interest rate swaps as follows:

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

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

12. Unitholders' equity:

A summary of the issued and outstanding number of Units is as follows:

	September 30	December 31
	2020	2019
Balance, beginning of year	**286,690,236**	285,677,811
Issuance of Units:		
Options exercised	**-**	368,306
Incentive Units settled in Units	**172,847**	4,817
Exchangeable units exchanged into Units	**-**	639,302
Balance, end of period	**286,863,083**	286,690,236

The weighted average number of basic Units for the three months ended September 30, 2020 is 286,861,531 (September 30, 2019 - 286,050,934) and for the nine months ended September 30, 2020 is 286,784,371 (September 30, 2019 - 285,935,270).

(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:

As at September 30, 2020, a maximum of 17,723,110 (December 31, 2019 - 17,723,110) options to purchase Units were authorized to be issued; 10,543,362 (December 31, 2019 - 10,647,642) options have been granted and are outstanding and 7,179,748 (December 31, 2019 - 7,075,468) options have not yet been granted. The exercise price of each option approximates the quoted price of the Units on the date of grant. The options vest at 33.3% per year from the grant date, will be fully vested after three years, and expire ten years after the date of the grant.

12. Unitholders' equity (continued):

A summary of the status of the unit option plan and the changes during the nine months ended September 30, 2020 as follows:

	September 30, 2020	
	Options	**Weighted average exercise price**
Outstanding, beginning of year	**10,647,642**	**$ 20.57**
Granted	**-**	**-**
Exercised	**-**	**-**
Expired	**(104,280)**	**23.10**
Outstanding and vested, end of period	**10,543,362**	**$ 20.55**

The outstanding and vested options at September 30, 2020 are exercisable at varying prices ranging from $18.98 to $23.18 (December 31, 2019 - $18.98 to $23.18) with a weighted average remaining life of 4.1 years (December 31, 2019 - 4.8 years).

(ii) Incentive unit plan:

As at September 30, 2020, a maximum of 5,000,000 (December 31, 2019 - 5,000,000) incentive units exchangeable into Units were authorized to be issued. The REIT has granted 1,063,697 (December 31, 2019 - 1,018,896) incentive units which remain outstanding, 184,299 (December 31, 2019 - 11,452) incentive units have been settled for Units and 3,752,004 (December 31, 2019 - 3,969,652) incentive units have not yet been granted.

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

The REIT grants restricted units under the incentive unit plan. As at September 30, 2020, 64.05% of the restricted units granted vest on the third anniversary and 35.95% of the restricted units granted vest on the fifth anniversary of their respective grant dates and are subject to forfeiture until the recipients of the awards have held office with or provided services to the REIT for a specified period of time. The restricted units are, subject to the holder's election, cash settled upon vesting.

The REIT grants performance units under the incentive unit plan with a three-year performance period for certain senior executives. The performance units are and will be subject to both internal and external measures consisting of both absolute and relative performance over a three-year period and, subject to the holder's election, cash settled upon vesting. In March 2020, the first grant of performance units awarded in 2017 vested at 59% of target.

A summary of the status of the incentive unit plan and the changes during the nine months ended September 30, 2020 are as follows:

	September 30 2020
	Incentive units
Outstanding, beginning of year	**1,018,896**
Granted	**302,831**
Settled	**(223,368)**
Expired	**(34,662)**
Outstanding, end of period	**1,063,697**

12. Unitholders' equity (continued):

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

	September 30 2020	December 31 2019
Options	**$ -**	$ 12,016
Incentive units	**5,656**	11,504
	$ 5,656	$ 23,520

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Options	**$ -**	$ 2,250	**$ (12,016)**	$ 16,179
Incentive units	**721**	2,027	**(2,392)**	5,991
	$ 721	$ 4,277	**$ (14,408)**	$ 22,170

(b) Distributions:

For the three months ended September 30, 2020, the REIT declared distributions per Unit of $0.17 (September 30, 2019 - $0.35) and for the nine months ended September 30, 2020, the REIT declared distributions per Unit of $0.75 (September 30, 2019 - $1.04).

(c) Normal course issuer bid:

On December 10, 2019, the REIT received approval from the TSX for the renewal of its normal course issuer bid ("NCIB"), allowing the REIT to purchase for cancellation up to a maximum of 15,000,000 Units on the open market until the earlier of December 16, 2020 or the date on which the REIT purchased the maximum number of Units permitted under the NCIB. During the three and nine months ended September 30, 2020 and the year ended December 31, 2019, the REIT did not purchase and cancel any Units.

13. Accumulated other comprehensive income:

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

	Note	**September 30, 2020**			December 31 2019
		Cash flow hedges	**Foreign operations**	**Total**	Total
Opening balance, beginning of year		**$ (223)**	**$ 246,721**	**$ 246,498**	$ 371,824
Transfer of realized loss on cash flow hedges to net loss		**23**	**-**	**23**	29
Unrealized gain (loss) on translation of U.S. denominated foreign operations		**-**	**44,157**	**44,157**	(108,675)
Net gain (loss) on hedges of net investments in foreign operations	*8*	**-**	**15,465**	**15,465**	(16,680)
		23	**59,622**	**59,645**	(125,326)
Closing balance, end of period		**$ (200)**	**$ 306,343**	**$ 306,143**	$ 246,498

14. Rentals from investment properties:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Rental income	**$ 220,988**	$ 225,887	**$ 669,821**	$ 695,288
Revenue from services	**48,595**	54,881	**146,481**	168,743
Straight-lining of contractual rent	**2,524**	1,435	**6,355**	4,950
Rent amortization of tenant inducements	**(495)**	(632)	**(1,486)**	(1,752)
	$ 271,612	$ 281,571	**$ 821,171**	$ 867,229

15. Finance costs:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Finance cost - operations				
Contractual interest on mortgages payable	**$ 37,668**	$ 41,569	**$ 113,340**	$ 125,866
Contractual interest on debentures payable	**11,603**	11,339	**29,199**	36,278
Contractual interest on unsecured term loans	**5,785**	5,895	**17,163**	15,981
Bank interest and charges on lines of credit	**2,954**	3,651	**13,385**	9,935
Effective interest rate accretion	**1,291**	1,067	**3,260**	3,172
Exchangeable unit distributions	**2,592**	5,505	**11,399**	16,514
	61,893	69,026	**187,746**	207,746
Capitalized interest[1]	**(4,999)**	(4,810)	**(15,752)**	(12,357)
	56,894	64,216	**171,994**	195,389
Finance income	**(8,914)**	(4,949)	**(26,268)**	(9,024)
Fair value adjustment on financial instruments	**(1,721)**	4,760	**(127,058)**	62,090
	$ 46,259	$ 64,027	**$ 18,668**	$ 248,455

(1) The weighted average rate of borrowings for the capitalized interest is 3.50% (September 30, 2019 - 3.90%).

16. Supplemental cash flow information:

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

	Nine months ended September 30	
	2020	2019
Accrued rents receivable	**$ (8,315)**	$ (10,084)
Prepaid expenses and sundry assets	**(23,548)**	(26,145)
Accounts receivable	**(8,853)**	872
Accounts payable and accrued liabilities	**28,967**	15,238
	$ (11,749)	$ (20,119)

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

		Nine months ended September 30	
	Note	**2020**	2019
Non-cash items:			
Non-cash adjustment to proceeds from issuance of Units		**$ 2,391**	$ 2,291
Mortgages receivable from the sale of investment properties		**-**	256,000
Non-cash assumption of mortgage payable on disposition of asset held for sale		**(49,796)**	-
Restricted cash assumption on disposition of asset held for sale		**1,782**	-
Transfer of investment property from equity accounted investments	*3*	**15,665**	
Other items:			
Change in accounts payable on lease liability and right-of-use asset	*3*	**709**	32,850
Change in accounts payable included in finance cost - operations		**(6,245)**	(964)
Capitalized interest on redevelopment	*15*	**(3,107)**	(4,001)
Capitalized interest on properties under development	*15*	**(12,645)**	(8,356)

17. Segmented disclosures:

The REIT has four reportable operating segments (Office, Retail, Industrial and Residential), in two geographical locations (Canada and the United States). The operating segments derive their revenue primarily from rental income from leases. The segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, determined to be the Chief Executive Officer ("CEO") of the REIT. The CEO measures and evaluates the performance of the REIT based on property operating income on a proportionately consolidated basis for the REIT's equity accounted investments. The accounting policies of the segments presented here are consistent with the REIT's accounting policies as described in note 2.

(i) Operating segments:

Real estate assets by reportable segment as at September 30, 2020 and December 31, 2019 are as follows:

September 30, 2020	**Office**	**Retail**	**Industrial**	**Residential**	**Total**
Number of investment properties	**33**	**325**	**86**	**22**	**466**
Real estate assets:					
Investment properties	**$ 5,345,211**	**$ 3,584,522**	**$ 1,076,476**	**$ 2,885,656**	**$ 12,891,865**
Properties under development	**7,311**	**24,745**	**138,642**	**878,008**	**1,048,706**
	5,352,522	**3,609,267**	**1,215,118**	**3,763,664**	**13,940,571**
Less: assets classified as held for sale	**(219,450)**	**-**	**-**	**-**	**(219,450)**
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	**-**	**(910,739)**	**(16,120)**	**(1,254,371)**	**(2,181,230)**
	$ 5,133,072	**$ 2,698,528**	**$ 1,198,998**	**$ 2,509,293**	**$ 11,539,891**

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

17. Segmented disclosures (continued):

Property operating income by reportable segment for the three months ended September 30, 2020 and September 30, 2019 is as follows:

	Office	**Retail**	**Industrial**	**Residential**	**Sub-total**	**Less: Equity Accounted Investments**	**September 30 2020**
Rentals from investment properties	**$ 132,740**	**$ 98,570**	**$ 20,195**	**$ 48,734**	**$ 300,239**	**$ (28,627)**	**$ 271,612**
Property operating costs	**(38,746)**	**(43,688)**	**(4,902)**	**(17,116)**	**(104,452)**	**8,611**	**(95,841)**
Property operating income	**$ 93,994**	**$ 54,882**	**$ 15,293**	**$ 31,618**	**$ 195,787**	**$ (20,016)**	**$ 175,771**

	Office	Retail	Industrial	Residential	Sub-total	Less: Equity Accounted Investments	September 30 2019
Rentals from investment properties	$ 135,908	$ 99,444	$ 21,262	$ 56,561	$ 313,175	$ (31,604)	$ 281,571
Property operating costs	(42,772)	(35,340)	(6,211)	(18,586)	(102,909)	6,582	(96,327)
Property operating income	$ 93,136	$ 64,104	$ 15,051	$ 37,975	$ 210,266	$ (25,022)	$ 185,244

Property operating income by reportable segment for the nine months ended September 30, 2020 and September 30, 2019 is as follows:

	Office	**Retail**	**Industrial**	**Residential**	**Sub-total**	**Less: Equity Accounted Investments**	**September 30 2020**
Rentals from investment properties	**$ 400,880**	**$ 296,790**	**$ 63,140**	**$ 154,363**	**$ 915,173**	**$ (94,002)**	**$ 821,171**
Property operating costs	**(133,167)**	**(143,166)**	**(16,506)**	**(75,962)**	**(368,801)**	**27,680**	**(341,121)**
Property operating income	**$ 267,713**	**$ 153,624**	**$ 46,634**	**$ 78,401**	**$ 546,372**	**$ (66,322)**	**$ 480,050**

	Office	Retail	Industrial	Residential	Sub-total	Less: Equity Accounted Investments	September 30 2019
Rentals from investment properties	$ 435,923	$ 302,977	$ 65,747	$ 154,703	$ 959,350	$ (92,121)	$ 867,229
Property operating costs	(150,082)	(117,431)	(19,187)	(77,693)	(364,393)	23,364	(341,029)
Property operating income	$ 285,841	$ 185,546	$ 46,560	$ 77,010	$ 594,957	$ (68,757)	$ 526,200

17. Segmented disclosures (continued):

(ii) Geographical locations:

The REIT operates in Canada and the United States.

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

	September 30 2020	December 31 2019
Real estate assets:		
Canada	**$ 7,426,353**	$ 8,546,186
United States	**6,514,218**	6,340,141
	13,940,571	14,886,327
Less: assets classified as held for sale	**(219,450)**	(133,905)
Less: REIT's proportionate share of real estate assets and assets classified as held for sale relating to equity accounted investments	**(2,181,230)**	(2,080,930)
	$ 11,539,891	$ 12,671,492

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Rentals from investment properties:				
Canada	**$ 196,442**	$ 201,704	**$ 593,731**	$ 639,364
United States	**103,797**	111,471	**321,442**	319,986
	300,239	313,175	**915,173**	959,350
Less: REIT's proportionate share of rentals relating to equity accounted investments	**(28,627)**	(31,604)	**(94,002)**	(92,121)
	$ 271,612	$ 281,571	**$ 821,171**	$ 867,229

18. Income tax expense (recovery):

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Income tax computed at the Canadian statutory rate of nil applicable to the REIT for 2020 and 2019	**$ -**	$ -	**$ -**	$ -
Current U.S. income taxes (recovery)	**(185)**	(52)	**242**	149
Deferred income taxes applicable to U.S. Holdco	**(20,821)**	1,673	**(47,388)**	24,716
Income tax expense (recovery) in the determination of net income (loss)	**$ (21,006)**	$ 1,621	**$ (47,146)**	$ 24,865

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

The REIT has certain subsidiaries in the United States that are subject to tax on their taxable income at a combined federal and state tax rate of approximately 23.5% (2019 - 23.6%). 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 2020	December 31 2019
Deferred tax assets:		
Net operating losses	**$ 74,215**	$ 24,947
Accounts payable and accrued liabilities	**499**	880
Other assets	**4,001**	980
	78,715	26,807
Deferred tax liabilities:		
Investment properties	**312,800**	309,730
Equity accounted investments	**138,058**	126,458
	450,858	436,188
Deferred tax liability	**$ (372,143)**	$ (409,381)

In July 2020, the Internal Revenue Service released certain income tax regulations. Accordingly, the REIT recognized a deferred tax recovery of $46,800 during the period ended September 30, 2020.

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

(b) Fair value of assets and liabilities:

Assets and liabilities measured at fair value in the 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, 2020	*Note*	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets measured at fair value						
Investment properties	*3*	$ -	$ -	$ 10,705,954	$ 10,705,954	$ 10,705,954
Properties under development	*3*	-	-	833,937	833,937	833,937
Assets classified as held for sale	*5*	-	-	219,450	219,450	219,450
Mortgages receivable	*6*	-	-	240,651	240,651	240,651
Assets for which fair values are disclosed						
Mortgages receivable	*6*	-	106,088	-	106,088	104,157
		-	106,088	11,999,992	12,106,080	12,104,149
Liabilities measured at fair value						
Exchangeable units	*9*	(143,919)	-	-	(143,919)	(143,919)
Derivative instruments	*10*	-	(43,230)	-	(43,230)	(43,230)
Liabilities for which fair values are disclosed						
Mortgages payable	*8(a)*	-	(3,858,571)	-	(3,858,571)	(3,717,712)
Debentures payable	*8(b)*	-	(1,360,643)	-	(1,360,643)	(1,319,492)
Unsecured term loans	*8(c)*	-	(697,149)	-	(697,149)	(696,429)
Lines of credit	*8(d)*	-	(545,491)	-	(545,491)	(544,935)
		(143,919)	(6,505,084)	-	(6,649,003)	(6,465,717)
		$ (143,919)	$ (6,398,996)	$ 11,999,992	$ 5,457,077	$ 5,638,432

19. Fair value measurement (continued):

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

20. 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, 2020, the REIT has outstanding letters of credit totalling $33,012 (December 31, 2019 - $36,881), including $12,635 (December 31, 2019 - $16,575) which has been pledged as security for certain mortgages payable. The letters of credit are secured by certain investment properties.

(b) The REIT provides guarantees on behalf of third parties, including co-owners. As at September 30, 2020, the REIT issued guarantees amounting to $274,516 (December 31, 2019 - $199,009), which expire between 2021 and 2027 (December 31, 2019 - expire between 2021 and 2027), relating to the co-owner's share of mortgage liability.

The REIT had previously guaranteed certain debt assumed by purchasers in connection with past dispositions of properties. At September 30, 2020, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk, is nil (December 31, 2019 - $41,259). There had been no defaults by the primary obligor for debts on which the REIT had provided its guarantees, and as a result, no contingent loss on these guarantees had been recognized in these 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.

20. Commitments and contingencies (continued):

(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.

21. Subsequent events:

(a) In November 2020, the REIT acquired a 50% ownership interest in 24.6 acres of industrial land in Mississauga, ON for a purchase price of approximately $18,500, at the REIT's interest. The REIT's joint venture partner has contributed land valued at approximately $37,000 and the REIT has contributed cash of $2,000. The REIT has a further cash commitment of $35,000 as funds are required for development. There are no immediate plans for construction.

(b) In November 2020, the REIT entered into a lease extension and amending agreement with Hess Corporation ("Hess") for its premises in Houston, TX, under which Hess has agreed to extend the term of its lease on two thirds of the building for an additional term of 10 years beyond its current expiry of June 30, 2026.

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

For the three and nine months ended September 30, 2020

Dated: November 12, 2020

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SECTION I

BASIS OF PRESENTATION

Management's Discussion and Analysis ("MD&A") of the results of operations and financial position of H&R Real Estate Investment Trust ("H&R" or the "REIT") for the three and nine months ended September 30, 2020 includes material information up to November 12, 2020. Financial data for the three and nine months ended September 30, 2020 and 2019 has 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 appended notes for the three and nine months ended September 30, 2020 ("REIT's Financial Statements"), together with the audited consolidated financial statements of the REIT and appended notes and MD&A for the year ended December 31, 2019. The REIT's Financial Statements are defined to refer to the financial statements for the REIT for the applicable period. All amounts in this MD&A are in thousands of Canadian dollars, except where otherwise stated. Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

Countries around the world have been affected by the COVID-19 virus, which was declared a pandemic by the World Health Organization on March 11, 2020. This pandemic has placed restrictions on how businesses can operate, requiring social distancing measures.

FORWARD-LOOKING DISCLAIMER

Certain information in this MD&A contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, among others, statements made or implied under the headings "Assets", "Segmented Information", "Liquidity and Capital Resources", "Risks and Uncertainties" and "Subsequent Events" relating to H&R's objectives, beliefs, plans, estimates, projections and intentions and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts, including the statements made under the headings "Business Update" and "Summary of Significant Q3 2020 Activity" including with respect to H&R's future plans, including significant development projects, H&R's expectation with respect to the activities of its development properties, including the building of new properties, the expected yield on cost from the REIT's development properties, the timing of construction, the timing of transfer from properties under development to investment properties, the timing of occupancy, the timing of lease-up and the expected total cost from development properties, the impact of the COVID-19 virus on the REIT's tenants, management's expectations regarding abatement expenses and recoveries including tenants participation in the Canada Emergency Rent Subsidy, the REIT's provisions for and incurrences of bad debt, expectations regarding tenant retention and closures, the expected rental revenues from leases with replacement tenants, including any offset of a reduction in gross revenues relating to store closures, and the significant revenue opportunity represented by percentage rent participation, the state of the retail market, expected capital and tenant expenditures, capitalization rates and cash flow models used to estimate fair values, management's expectations regarding the REIT's leverage and portfolio quality, management's belief that Jackson Park's decline is temporary and expectations regarding future operating fundamentals, management's expectations regarding future distributions, management's belief that H&R has sufficient funds and liquidity for future commitments and management's expectation to be able to meet all of its ongoing obligations. Forward-looking statements generally can be identified by words such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans", "project", "budget" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect H&R's current beliefs and are based on information currently available to management.

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements are not guarantees of future performance and are based on H&R's estimates and assumptions that are subject to risks, uncertainties and other factors including those risks and uncertainties described below under "Risks and Uncertainties" and those discussed in H&R's materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results, performance or achievements of H&R to differ materially from the forward-looking statements contained in this MD&A. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that the general economy is currently volatile and in an economic downturn as a result of the COVID-19 pandemic and low oil and gas prices, the extent and duration of which is unknown; interest rates are volatile as a result of general economic conditions; and debt markets continue to provide access to capital at a reasonable cost, notwithstanding the ongoing economic downturn. Additional risks and uncertainties include, among other things, risks related to: real property ownership; the current economic environment; COVID-19; credit risk and tenant concentration; lease rollover risk; interest and other debt-related risk; construction risks; currency risk; liquidity risk; financing credit risk; cyber security risk; environmental and climate change risk; co-ownership interest in properties; joint arrangement and investment risks; unit price risk; availability of cash for distributions; ability to access capital markets; dilution; unitholder liability; redemption right risk; risks relating to debentures and the inability of the REIT to purchase senior debentures on a change of control; tax risk, U.S. tax reform and tax consequences to U.S. holders. H&R cautions that these lists of factors, risks and uncertainties are not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what H&R believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

Readers are also urged to examine H&R's materials filed with the Canadian securities regulatory authorities from time to time as they may contain discussions on risks and uncertainties which could cause the actual results and performance of H&R to differ materially from the forward-looking statements contained in this MD&A. All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements are made as of November 12, 2020 and the REIT, except as required by applicable Canadian law, assumes no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances.

NON-GAAP FINANCIAL MEASURES

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

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

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

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

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

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

Same-Asset property operating income (cash basis) is a non-GAAP financial measure used by H&R to assess period-over-period performance for properties owned and operated since January 1, 2019. Same-Asset property operating income (cash basis) adjusts property operating income to include property operating income from equity accounted investments on a proportionately consolidated basis at H&R's ownership interest of the applicable investment and excludes two non-cash items:

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

It further excludes:

- Acquisitions, business combinations, dispositions and transfers of properties under development to investment properties during the 21-month period ended September 30, 2020 (collectively, "Transactions").

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

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

FFO and AFFO are non-GAAP financial measures widely used in the real estate industry as a measure of operating performance particularly by those publicly traded entities that own and operate investment properties. H&R presents its consolidated FFO and AFFO calculations in accordance with the Real Property Association of Canada (REALpac) February 2019 *White Paper on Funds From Operations and Adjusted Funds From Operations for IFRS*. FFO provides an operating performance measure that when compared period over period, reflects the impact on operations of trends in occupancy levels, rental rates, property operating costs, acquisition activities and finance costs, that is not immediately apparent from net income (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, tenant expenditures and leasing costs. Although capital and tenant expenditures can vary from quarter to quarter due to tenant turnovers, vacancies and the age of a property, H&R has elected to deduct actual capital and tenant expenditures in the period. This may differ from others in the industry that deduct a normalized amount of capital and tenant expenditures, based on historical activity, in their AFFO calculation. Capital expenditures excluded and not deducted in the calculation of AFFO relate to capital expenditures which generate a new investment stream, such as the construction of a new retail

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

(d) **Interest coverage ratio**

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

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

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

(f) **Payout ratio 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 measures which assess the REIT's ability to pay distributions and are calculated by dividing 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 assess whether sufficient cash is being held back for operational expenditures. Furthermore, H&R uses the Payout Ratio as a % of AFFO to further assess whether sufficient cash is being held back for capital and tenant expenditures. Refer to the "Financial Highlights" and "Funds From Operations and Adjusted Funds From Operations" sections of this MD&A for the REIT's payout ratio as a % of FFO and payout ratio as a % of AFFO.

(g) **NAV per Unit**

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

OVERVIEW

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

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

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

H&R's strategy to mitigate risk includes diversification both by asset class and geographic location. H&R invests in four real estate asset classes which management views as four separate operating segments. H&R invests in office, retail, industrial and residential properties and acquires properties both in Canada and the United States. H&R's Office segment, the largest of the four segments, holds a portfolio of single tenant and multi-tenant office properties across Canada and in select markets in the United States. H&R's Retail segment operates as Primaris, and holds a portfolio of enclosed shopping centres,

single tenant retail properties and multi-tenant retail plazas throughout Canada and 16 single tenant retail properties in the United States. In addition, it also holds a 33.6% interest in Echo Realty LP ("ECHO"), a privately held real estate and development company which focuses on developing and owning a core portfolio of grocery anchored shopping centres in the United States. H&R's Industrial segment holds a portfolio of single tenant and multi-tenant industrial properties across Canada and three single tenant industrial properties in the United States. H&R's Residential segment operates as Lantower Residential, a wholly-owned subsidiary of H&R, and focuses on acquiring and developing residential rental properties in the United States. Management assesses the results of these operations separately.

SECTION II

FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars except per Unit amounts)	**September 30, 2020**	December 31, 2019	December 31, 2018
Total assets	**$13,293,967**	$14,483,342	$14,691,009
Debt to total assets per the REIT's Financial Statements[1]	**47.2%**	44.4%	44.6%
Debt to total assets at the REIT's proportionate share[1][2]	**50.8%**	47.7%	47.1%
Unitholders' equity	**6,155,538**	7,043,917	7,200,100
Units outstanding (in thousands of Units)	**286,863**	286,690	285,678
Unitholders' equity per Unit	**$21.46**	$24.57	$25.20
NAV per Unit[2][3]	**$22.11**	$25.79	$26.30
Unit price	**$9.67**	$21.10	$20.65

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Rentals from investment properties	**$271,612**	$281,571	**$821,171**	$867,229
Property operating income	**175,771**	185,244	**480,050**	526,200
Same-Asset property operating income (cash basis)[2]	**176,228**	186,484	**540,512**	561,918
Net income (loss) from equity accounted investments	**9,195**	(18,414)	**27,711**	(5,757)
Fair value adjustment on real estate assets	**93,000**	(25,258)	**(1,265,918)**	(60,214)
Net income (loss)	**247,849**	69,301	**(736,203)**	176,887
FFO[2]	**124,522**	130,287	**375,698**	395,431
AFFO[2]	**106,664**	103,969	**314,194**	309,555
Weighted average number of basic Units for FFO[2]	**301,745**	301,573	**301,667**	301,458
FFO per basic Unit[2]	**$0.41**	$0.43	**$1.25**	$1.31
AFFO per basic Unit[2]	**$0.35**	$0.35	**$1.04**	$1.03
Distributions per Unit	**$0.17**	$0.35	**$0.75**	$1.04
Payout ratio as a % of FFO[2]	**41.9%**	79.9%	**60.1%**	78.9%
Payout ratio as a % of AFFO[2]	**49.0%**	100.0%	**71.8%**	100.8%
Interest coverage ratio[2]	**3.12**	3.01	**3.10**	3.00

(1) Debt includes mortgages payable, debentures payable, unsecured term loans and lines of credit.
(2) These are non-GAAP measures. Refer to the "Non-GAAP Financial Measures" section of this MD&A.
(3) Refer to page 22 for a detailed calculation of NAV per Unit.

The fair value adjustment on real estate assets is further discussed on page 5 of this MD&A. Net income (loss) is reconciled to FFO and AFFO on page 32 of this MD&A.

KEY PERFORMANCE DRIVERS

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

OPERATIONS		Office	Retail	Industrial	Residential	Total
Occupancy as at September 30	**2020**	**99.6%**	**91.5%**	**97.5%**	**88.6%**	**94.5%**
	2019	98.3%	89.4%	96.5%	91.4%	93.7%
Occupancy – Same-Asset as at September 30[1]	**2020**	**99.6%**	**91.5%**	**98.5%**	**88.3%**	**94.8%**
	2019	98.3%	89.4%	96.3%	92.7%	93.9%
Average contractual rent per sq.ft. for the nine months ended September 30-Canadian properties[2]	**2020**	**$26.23**	**$20.87**	**$7.01**	**N/A**	**$18.42**
	2019	$26.08	$20.89	$6.74	N/A	$18.18
Average contractual rent per sq.ft. for the nine months ended September 30-U.S. properties (USD)[2]	**2020**	**$32.85**	**$19.02**	**$4.06**	**$20.13**	**$20.98**
	2019	$32.15	$17.61	$2.93	$21.79	$21.31
Average remaining term to maturity of leases as at September 30 (in years)	**2020**	**11.7**	**6.4**	**6.4**	**N/A**	**9.2**
	2019	12.7	6.6	6.7	N/A	9.7
Average remaining term to maturity of mortgages payable as at September 30 (in years)	**2020**	**3.0**	**3.8**	**5.4**	**7.8**	**5.2**
	2019	3.2	4.3	6.2	8.6	5.5

(1) Same-Asset refers to those properties owned by H&R for the 21-month period ended September 30, 2020.
(2) Excludes properties sold in their respective year.

BUSINESS UPDATE

COVID-19

The COVID-19 pandemic has dramatically disrupted society and the economy and significantly impacted the commercial property industry. A strong focus on risk management has been and continues to be core to H&R, as reflected by the REIT's long-term leases, high credit quality tenants and conservative balance sheet.

H&R is pleased to report that all of the REIT's properties were open and fully operational during Q3, including all retail properties, some of which were impacted by mandated closures during Q2 2020. Management has been working closely with all of the REIT's tenants, and particularly retailers at enclosed shopping centres, where same-store sales volume (comprised of commercial retail units smaller than 15,000 square feet) recovered in Q3 2020 to 86% of prior year levels, up from the low 31% average in Q2 2020. Tenant sales have been trending higher since April lows, reaching 88% in September.

Fair Value Adjustments on Real Estate Assets

The financial results for the nine months ended September 30, 2020 include significant fair value adjustments recorded in Q1 2020. These adjustments are a result of H&R's regular quarterly IFRS fair value process, and include the following impacts of COVID-19: (i) an acceleration of challenging conditions in the retail landscape impacting the valuation assumptions of retail properties; and (ii) energy sector challenges that have impacted the credit quality of many companies operating in this industry and the related impacts on property market fundamentals in markets significantly influenced by energy industry employment.

Given the rapidly changing dynamics within these industries and the broader economy, management and the Board strongly supported taking a more proactive approach to updating fair market values in Q1 2020. While the strong recovery in same-store sales at the REIT's shopping centres and the improved cost and access to credit enjoyed by energy sector tenants are encouraging, there have not been a sufficient number of transactions in the direct property market to warrant changes in these sectors in Q3 2020.

Fair Value Adjustment on Real Estate Assets (in thousands of Canadian dollars)	Three months ended March 31, 2020	Three months ended June 30, 2020	Three months ended September 30, 2020	Nine months ended September 30, 2020
Operating Segment:				
Office	($668,904)	($34,210)	($2,666)	($705,780)
Retail	(658,801)	(5,690)	(5,557)	(670,048)
Industrial	7,094	(4,142)	10,209	13,161
Residential	19,369	(13,634)	91,014	96,749
Total fair value adjustment on real estate assets	($1,301,242)	($57,676)	$93,000	($1,265,918)

Residential properties in U.S. Sun-Belt cities have seen an increased investment demand since the start of COVID-19 and this has resulted in a decrease in the capitalization rates used as part of H&R's regular quarterly IFRS fair value process in Q3 2020.

Provision for Bad Debts

The provision for bad debts is classified as an expense and is grouped together with other expenses in property operating costs. The following tables disclose H&R's provision for bad debts as a result of the impact of COVID-19. H&R's retail segment was impacted the most due to government mandated closures primarily affecting the REIT's enclosed shopping centres.

Provision for Bad Debts (in thousands of Canadian dollars)	Three months ended September 30, 2020	Nine months ended September 30, 2020
Expected rent abatements and general provision for bad debts	$5,500	$24,314
Bankruptcies - tenants who have filed for creditor protection	5,186	8,093
CECRA application related abatements - April - September 2020	2,762	5,855
Provision for bad debts per the REIT's proportionate share	13,448	38,262
Less: equity accounted investments	(844)	(1,789)
Provision for bad debts per the REIT's Financial Statements	$12,604	$36,473

Provision for Bad Debts	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2020**	2019	Change	**2020**	2019	Change
Bad debts by Same-Asset operating segment:						
Office	**$168**	$40	$128	**$543**	$119	$424
Retail	**12,808**	66	12,742	**35,720**	218	35,502
Industrial	**-**	-	-	**52**	-	52
Residential	**392**	276	116	**1,617**	797	820
Total Same-Asset bad debts	**13,368**	382	12,986	**37,932**	1,134	36,798
Transactions	**80**	50	30	**330**	123	207
Provision for bad debts per the REIT's proportionate share	**13,448**	432	13,016	**38,262**	1,257	37,005
Less: equity accounted investments	**(844)**	8	(852)	**(1,789)**	56	(1,845)
Provision for bad debts per the REIT's Financial Statements	**$12,604**	$440	$12,164	**$36,473**	$1,313	$35,160

H&R has recorded a provision for bad debts as at September 30, 2020 of $36.5 million. The provision for bad debts of $23.9 million as at June 30, 2020 was increased by $12.6 million in Q3 2020. Management anticipates that the increase to the provision for bad debts in Q4 2020 will be smaller in magnitude than the increase in Q3 2020. Early 2021 may bring further retailer distress, which is difficult to predict in advance. Management is committed to working together with its tenants to ensure the vitality of H&R's shopping centres.

The financial impact of bad debts is one-time in nature, while continuing impacts on rental revenues is covered in the next section addressing tenant closures and lease amendments. These bad debts relate to rental revenues billed but not paid for the reporting period but not future periods. These bad debts include rental abatements agreed to under both the Canada Emergency Commercial Rent Assistance ("CECRA") program and abatements agreed to by management with tenants in distress, as well as unpaid rent from tenants that have filed for protection under *Canada's Companies' Creditors Arrangement Act* ("CCAA").

Tenant Closures

Many retailers have faced very challenging conditions in recent months. Several have filed for CCAA creditor protection and several have announced store closures. The REIT's focus on maintaining affordable cost structures for its mall-based retailers has resulted in above average rent collections as compared to other large mall owners, and high retention of store locations by tenants planning store closures elsewhere. The following table summarizes the tenant groups that have filed for creditor protection under the CCAA:

	CCAA	--------Current--------		------Expected to be Retained------	
Tenant Group	**Filing Date**	**Square footage[1]**	**Number of Stores**	**Square footage[1]**	**Number of Stores**
Pier One	February 29, 2020	28,583	3	-	-
Aldo	May 7, 2020	27,715	19	23,724	15
Reitmans	May 19, 2020	43,917	17	38,544	14
Comark	June 3, 2020	79,890	26	79,890	26
General Nutrition Centres	June 24, 2020	6,868	8	4,586	6
David's Tea	July 8, 2020	9,158	16	-	-
Tristan	July 21, 2020	2,500	1	2,500	1
Ascena	July 23, 2020	19,187	7	2,199	1
Laura's Group	August 4, 2020	9,047	3	9,047	3
Moores	August 5, 2020	5,004	1	5,004	1
Lilianne Lingerie	August 10, 2020	524	1	524	1
Cazza	August 13, 2020	4,944	3	4,944	3
Manteaux Manteaux	August 14, 2020	2,419	2	2,419	2
Dynamite	September 8, 2020	45,132	15	45,132	15
Ernest	September 14, 2020	1,011	1	1,011	1
Le Chateau	October 23, 2020	42,767	13	-	-
Total subject to CCAA		328,666	136	219,524	89
Total Retail Segment		13,183,000	2,625		

(1) At H&R's ownership interest.

H&R REIT continues to work collaboratively with its tenants that have been significantly affected by the pandemic. Retailers undergoing CCAA restructuring has been an area of particular focus for management, where retention of stores has exceeded 65%. Management expects no closures from GAP, H&M, or L Brands in the REIT's portfolio, and the REIT does not have any locations with Brooks Brothers, Lucky Brands, J. Crew, Mendocino, Frank & Oak, Lole or Microsoft Corporation, each of which has announced plans for store closures.

In relation to the REIT's initial 2020 budget of approximately $1.1 billion of gross revenue, Primaris accounted for approximately $285 million. Of that amount, approximately $21.1 million of gross rent is attributable to tenants undergoing restructurings or liquidations. H&R has committed to an annualized rental revenue reduction of approximately $12.2 million as a result of both store closures and lease amendments, at the REIT's share. Store closures, which provide the opportunity to re-lease space to new tenants, account for $6.0 million of this amount, while temporary lease amendments to rental rates for retained tenancies accounts for $6.2 million of this amount.

In restructuring existing leases to accommodate rental rate reductions, while each situation is unique, typical lease amendments include the following characteristics:

1) a limited period of three months to as much as 24 months of reduced gross rent, after which tenants revert to previous lease terms;

2) a lower percentage rent breakpoint during the period of reduced rent, which provides H&R the opportunity to earn additional revenue as sales volumes recover; and

3) no change to all other lease terms, including term, renewal rights and renewal rental rates, with the exception of some instances where H&R secured certain lease amendments, to the benefit of the REIT.

Among the 47 store closures for tenants that have filed for credit protection under CCAA aggregating 109,142 square feet. across H&R's 13,183,000 square feet retail portfolio, leases have been signed with replacement tenants for 23 stores for 35,672 square feet, with many having commenced occupancy. The rental revenues from these new tenancies are expected to partially offset the annualized $6.0 million reduction in gross revenues relating to store closures, though the magnitude of that offset depends significantly on tenants sales and percentage rent participation. Similarly, the annualized $6.2 million of gross revenue reduction due to temporary lease amendments assumes no percentage rent is collected under the temporary lease terms. In September, average same-store sales from tenants across the Primaris portfolio reached 88% of prior year levels.

Rent Collection

Rent collection has been a key focus during the pandemic, and one where H&R believes it has performed well while also accommodating the needs of its tenants. As of November 9, 2020, H&R's rent collections since the onset of COVID-19 are as follows:

Tenant Type[1]	**Share of Rent**[2]	**Q2 2020 Collection**[2]	**Q3 2020 Collection**[2]	**October Collection**[2]
Office	44%	99%	99%	99%
Retail:				
Enclosed	*21%*	*60%*	*72%*	*83%*
Other	*13%*	*92%*	*94%*	*96%*
Total Retail	*34%*	*72%*	*80%*	*88%*
Residential	16%	97%	97%	96%
Industrial	6%	99%	99%	100%
Total[3]	**100%**	**90%**	**93%**	**95%**

(1) Retail tenants in an office property for the purpose of this table have been classified as retail.
(2) The average share of rent and collections include monthly billings for base rent and property operating costs.
(3) April to September collections include an aggregate amount of $11.8 million received from the Government of Canada under the Canada Emergency Commercial Rent Assistance ("CECRA") program.

H&R's high-quality, long-term leased office portfolio delivered strong rent collection consistent with the profile of the tenant base, with 85.3% of revenues coming from investment-grade rated tenants. Rent collection was also strong in H&R's industrial and residential portfolios, reflecting the stronger-than-average credit profile of the REIT's tenant base across both of these portfolios.

H&R achieved an overall rent collection of 95% in October, compared to 93% in Q3 2020 and 90% in Q2 2020.

The tenants that have been impacted the most by the COVID-19 pandemic have been retailers. Rent collection in H&R's retail portfolio reflects a blend of grocery-anchored centres, single tenant and enclosed mall properties. Non-essential stores across the country were closed by government mandates in March. By the end of June all properties, including most stores at enclosed shopping centres, were re-opened, which is reflected in the retail rent collections trending upwards from 72% in Q2 to 80% in Q3. October's collections from the retail portfolio of 88% is without any CECRA subsidies.

The CECRA program for small businesses implemented by the Government of Canada provided forgivable loans to qualifying landlords to cover 50% of six monthly rent payments that were payable by eligible small business tenants who were experiencing financial hardship during April to September. Tenants were responsible for contributing 25% of the rent payments with the landlords abating the remaining 25% share.

H&R filed CECRA applications for 39 properties covering approximately $23.5 million of gross rent at H&R's ownership interest cumulatively for the six month period from April to September. H&R's 25% abatement was approximately $5.9 million and the Government of Canada's 50% received was approximately $11.8 million.

In October 2020, the Government of Canada introduced the Canada Emergency Rent Subsidy ("CERS") which will provide tenants with direct access (without landlord participation) to rent support until June 2021 for qualifying organizations affected by COVID-19. The REIT expects its tenants who qualify will participate in this program which should cover up to 65% of such tenants' eligible expenses.

Liquidity

As at September 30, 2020, H&R had $1.0 billion of unused borrowing capacity available under its lines of credit, $54.4 million of cash on hand and an unencumbered asset pool of approximately $3.5 billion. As at September 30, 2020, H&R had approximately $39.0 million of mortgages maturing during the remainder of 2020.

SUMMARY OF SIGNIFICANT Q3 2020 ACTIVITY

Developments

H&R's active development pipeline in the United States currently comprises five residential developments and one mixed-used development with a total development budget of U.S. $679.3 million. As at September 30, 2020, U.S. $577.8 million had been spent on properties under development with U.S. $101.5 million of budgeted costs remaining to complete of which U.S. $58.9 million will be funded through secured construction facilities, in each case at the REIT's proportionate share.

The largest current development project is River Landing, an urban in-fill mixed use development site in Miami, FL, which is adjacent to the Health District with approximately 1,000 feet of waterfront on the Miami River, two miles from downtown Miami. River Landing includes approximately 346,000 square feet of retail space, approximately 149,000 square feet of office space and 528 residential rental units. Retail occupancy has commenced and as at November 6, 2020, eight stores were opened including Hobby Lobby, Burlington, Publix Super Markets Inc., Ross Stores Inc., Five Below, Chase Bank, AT&T and Old Navy totalling 206,365 square feet. The centre will also welcome TJ Maxx, Planet Fitness, Ulta Cosmetics, Chick-fil-A, Ficelle Patisserie & Boulangerie, Sapphira Prive Med-Spa, and The Pediatric Dental Center of River Landing, whose stores are all expected to open in Q1/Q2 2021. The remaining retail and office lease-up is expected to occur during the balance of 2020 and 2021. The retail component of this development is expected to be transferred from properties under development to investment properties in Q4 2020. As at November 6, 2020, 91 residential leases have been entered into exceeding management's expectations on leasing velocity. The total cost of the project is expected to be approximately U.S. $495.9 million. Construction is nearing completion and as at September 30, 2020, approximately U.S. $446.9 million has been included in properties under development.

Construction continued on the first phase of a 2.7 million square foot industrial development in Caledon, ON. The first phase consists of three buildings, which will total approximately 526,000 square feet upon completion. In January 2020, H&R completed a 10-year lease with Deutsche Post AG to occupy the largest of the three buildings totalling 342,821 square feet. Rent payments are expected to commence on November 14, 2020. The total budget for this building is $54.6 million. As a result of COVID-19, H&R has temporarily suspended construction of the second and third buildings.

In July 2020, H&R purchased 15.4 acres of land in Mississauga, ON for $18.7 million which is expected to be developed into two industrial buildings totalling approximately 329,000 square feet.

For a complete list of H&R's current development projects, refer to page 14 of this MD&A.

Office

Same-Asset property operating income (cash basis) from office properties increased by 2.0% for the three months ended September 30, 2020 compared to the respective 2019 period, primarily due to contractual rental escalations and an increase in occupancy.

Industrial

Same-Asset property operating income (cash basis) from industrial properties increased by 7.4% for the three months ended September 30, 2020 compared to the respective 2019 period, primarily due to an increase in occupancy and rental rates.

Residential

Same-Asset property operating income (cash basis) from residential properties in U.S. dollars decreased by 12.7% for the three months ended September 30, 2020 compared to the respective 2019 period, primarily due to Jackson Park in New York, which has been negatively impacted by lower than average lease renewals and apartment traffic due to COVID-19. H&R believes this decline is temporary and expects operating fundamentals to improve in the upcoming quarters. Excluding Jackson Park, Same-Asset property operating income (cash basis) from residential properties in U.S. dollars increased by 4.1% for the three months ended September 30, 2020 compared to the respective 2019 period.

Retail

Same-Asset property operating income (cash basis) from retail properties decreased by 15.7% for the three months ended September 30, 2020 compared to the respective 2019 period, primarily due to the provision for bad debts as a result of the impact of COVID-19. Excluding the provision for bad debts, Same-Asset property operating income increased by 5.3% which was primarily due to an increase in occupancy due to the re-leasing of the former Target and Sears premises.

Funds from Operations and Adjusted Funds from Operations

FFO per Unit in Q3 2020 was $0.41 compared to $0.38 in Q2 2020 and $0.43 in Q3 2019. Excluding the Q3 2020 provision for bad debts of $13.4 million, Q3 2020 FFO would have been $0.46 per Unit, an increase of $0.03 per Unit compared to Q3 2019. AFFO per Unit was $0.35 in Q3 2020 compared to

$0.29 in Q2 2020 and $0.35 in Q3 2019. Distributions paid as a percentage of AFFO was 49.0% in Q3 2020, resulting in significant retained cash flow. 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.

Debt Highlights

As at September 30, 2020, debt to total assets was 47.2%, an improvement from 48.1% last quarter but an increase compared to 44.4% as at December 31, 2019. This is primarily due to the fair value adjustment of certain office and retail properties recognized in Q1 2020 (further discussed on page 5 of this MD&A) of approximately $1.3 billion. The weighted average interest rate of H&R's debt as at September 30, 2020 was 3.6% with an average term to maturity of 3.7 years.

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, 2020	December 31, 2019
For each U.S. $1.00	**$1.33 CAD**	$1.30 CAD

(in thousands of Canadian dollars)	**September 30, 2020**	December 31, 2019
Assets		
Real estate assets		
Investment properties	**$10,705,954**	$11,988,347
Properties under development	**833,937**	683,145
	11,539,891	12,671,492
Equity accounted investments	**1,026,329**	1,002,773
Assets classified as held for sale	**219,450**	135,673
Other assets	**453,861**	624,764
Cash and cash equivalents	**54,436**	48,640
	$13,293,967	$14,483,342
Liabilities and Unitholders' Equity		
Liabilities		
Debt	**$6,278,568**	$6,375,860
Exchangeable units	**143,919**	323,173
Deferred tax liability	**372,143**	409,381
Accounts payable and accrued liabilities	**343,799**	281,595
Liabilities classified as held for sale	**-**	49,416
	7,138,429	7,439,425
Unitholders' equity	**6,155,538**	7,043,917
	$13,293,967	$14,483,342

ASSETS

Real Estate Assets:

Change in Investment Properties (in thousands of Canadian dollars)	REIT's Financial Statements	Plus: equity accounted investments	REIT's proportionate share[1]
Opening balance, January 1, 2020	**$11,988,347**	$1,921,820	$13,910,167
Acquisitions, including transaction costs	**21,979**	23,480	45,459
Transfer of investment property from equity accounted investments	**15,665**	(15,665)	-
Dispositions	**(22,145)**	(8,075)	(30,220)
Transfer of investment properties to assets classified as held for sale	**(219,450)**	-	(219,450)
Operating capital:			
Capital expenditures	**38,501**	1,615	40,116
Leasing expenses and tenant inducements	**9,618**	536	10,154
Redevelopment (including capitalized interest)	**60,374**	2,397	62,771
Amortization of tenant inducements and straight-lining of contractual rents	**6,830**	(1,205)	5,625
Change in right-of-use asset[2]	**-**	(1,775)	(1,775)
Transfer of properties under development that have reached substantial completion to investment properties	**-**	2,657	2,657
Fair value adjustment on real estate assets (page 30)	**(1,265,918)**	(2,096)	(1,268,014)
Change in foreign exchange	**83,222**	43,931	127,153
IFRIC 21-realty tax adjustment	**(11,069)**	(1,160)	(12,229)
Closing balance, September 30, 2020	**$10,705,954**	$1,966,460	$12,672,414

(1) The REIT's proportionate share is a non-GAAP measure defined in the "Non-GAAP Financial Measures" section of this MD&A.
(2) At September 30, 2020, the right-of-use asset in a leasehold interest of $42.7 million (included in equity accounted investments) was measured at an amount equal to the corresponding lease liability.

2020 Acquisitions: Property[1]	Year Built	Segment	Date Acquired	Square Feet	Purchase Price ($ Millions)	Ownership Interest Acquired
2001 Forbes St., Whitby, ON	1986	Industrial	Jan 29, 2020	93,330	$6.6	50%
7575 Brewster Ave., Philadelphia, PA[2]	1981	Industrial	Feb 14, 2020	81,148	15.4	49.5%
Total				174,478	$22.0	

(1) Square feet and purchase prices are listed at H&R's ownership interest. U.S. acquisitions have been translated to Canadian dollars at the exchange rate as at the date acquired.
(2) H&R purchased the remaining 49.5% interest it did not previously own and now owns 100% of this property.

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

(1) Purchase price is listed at H&R's ownership interest. U.S. acquisitions have been translated to Canadian dollars at the exchange rate as at the date acquired.
(2) H&R purchased the remaining 49.5% interest it did not previously own and now owns 100% of this property. The additional square footage acquired was 60,930.

2020 Dispositions:

Property	Segment	Date Sold	Square Feet	Selling Price ($ Millions)[1]	Ownership Interest Sold
8401 Memorial Ln., Plano, TX[2]	Residential	Jan 9, 2020	362,785	$86.5	100%
12601 South Green Dr., Houston, TX[2]	Residential	Jan 23, 2020	219,948	31.2	100%
Canada One Outlets, Niagara Falls, ON	Retail	Apr 1, 2020	164,365	10.2	100%
220 Chemin du Tremblay, Boucherville, QC[3]	Industrial	Apr 30, 2020	363,983	17.4	50%
111 Clarence St., Port Colborne, ON	Retail	Aug 12, 2020	14,849	1.2	100%
Total			1,125,930	$146.5	

(1) U.S. dispositions have been translated to Canadian dollars at the exchange rate as at the date sold.
(2) These properties consisted of 398 and 268 residential rental units, respectively, both of which were classified as held for sale as at December 31, 2019.
(3) Classified as held for sale as at December 31, 2019. Square feet and selling price are based on the ownership interest disposed.

2019 Dispositions:

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

(1) U.S. dispositions have been translated to Canadian dollars at the exchange rate as at the date sold.
(2) Classified as held for sale as at December 31, 2018.
(3) Approximately 3.4 acres of excess lands adjacent to the REIT's head office in Toronto, ON.
(4) Property consisted of 400 residential rental units.
(5) Square feet and selling price are based on the ownership interest disposed.

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, 2020						
	REIT's Financial Statements			Equity Accounted Investments			
Operating Segment (in millions of Canadian dollars)	Investment Properties	Properties Under Development	Sub Total	Investment Properties	Properties Under Development	Sub Total	REIT's Proportionate Share[1]
Office	$5,126	$7	$5,133	$ -	$ -	$ -	$5,133
Retail	2,699	-	2,699	886	25	911	3,610
Industrial	1,060	139	1,199	16	-	16	1,215
Residential	1,821	688	2,509	1,064	190	1,254	3,763
Total	$10,706	$834	$11,540	$1,966	$215	$2,181	$13,721

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

	September 30, 2020						
	REIT's Financial Statements			Equity Accounted Investments			
Geographic Location (in millions of Canadian dollars)	Investment Properties	Properties Under Development	Sub Total	Investment Properties	Properties Under Development	Sub Total	REIT's Proportionate Share[1]
Ontario	$3,836	$139	$3,975	$ -	$ -	$ -	$3,975
Alberta	2,292	-	2,292	-	-	-	2,292
Other	1,152	7	1,159	-	-	-	1,159
Canada	7,280	146	7,426	-	-	-	7,426
United States	3,426	688	4,114	1,966	215	2,181	6,295
Total	$10,706	$834	$11,540	$1,966	$215	$2,181	$13,721

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

Capitalization Rates:

The capitalization rates disclosed below are reported by segment and geographic location at the REIT's proportionate share which differs from the REIT's Financial Statements.

September 30, 2020	**Office**	**Retail**	**Industrial**	**Residential**	**Total**
Canada	**6.65%**	**7.37%**	**5.47%**	**-**	**6.74%**
United States	**5.96%**	**7.13%**	**6.92%**	**4.60%**	**5.45%**

December 31, 2019	Office	Retail	Industrial	Residential	Total
Canada	5.72%	6.12%	5.51%	-	5.84%
United States	5.22%	7.15%	7.52%	4.75%	5.34%

The assumptions used in determining the fair value of investment properties were changed as a result of COVID-19. Refer to page 5 of this MD&A for further discussion on IFRS fair value adjustments included in the Business Update.

Canadian Properties under Development:

As at September 30, 2020			At H&R's Ownership Interest				
(in thousands of Canadian dollars)	Ownership Interest	Number of Acres	Total Development Budget	Properties Under Development	Costs Remaining to Complete	Expected Yield on Cost	Expected Completion Date
Current Developments:							
Industrial Lands (Building 1), Caledon, ON[(1)(2)]	100.0%	16.8	$54,564	$33,891	$20,673	6.7%	Q4 2020
Industrial Lands (Building 2), Caledon, ON[(1)(3)]	100.0%	4.7	13,471	5,441	8,030	5.4%	
Industrial Lands (Building 3), Caledon, ON[(1)(3)]	100.0%	4.9	14,960	5,966	8,994	6.5%	
		26.4	**$82,995**	**$45,298**	**$37,697**		
Future Developments:							
Industrial Lands (Remaining lands), Caledon, ON[(1)]	100.0%	117.6	-	72,497	-		
7333 Mississauga Rd. N., Mississauga, ON[(4)]	100.0%	15.4	-	20,846	-		
3791 Kingsway, Burnaby, BC[(5)]	50.0%	0.6	-	7,311	-		
Total		**160.0**	**$82,995**	**$145,952**	**$37,697**		

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

(2) In January 2020, H&R completed a 10-year lease with Deutsche Post AG to occupy the entire building consisting of 342,821 square feet. Rent payments are expected to commence on November 14, 2020.

(3) As a result of COVID-19, H&R has temporarily suspended construction of Industrial Lands (Building 2 and 3).

(4) Expected to be developed into two industrial buildings totalling approximately 329,000 square feet.

(5) Excess lands held for future-redevelopment. These lands are adjacent to the REIT's 3777 Kingsway office tower of which it also has a 50% ownership interest.

U.S. Properties under Development:

As at September 30, 2020			At H&R's Ownership Interest					
(in thousands of U.S. dollars)	Ownership Interest	Number of Acres	Total Development Budget	Properties Under Development	Costs Remaining to Complete	Construction Financing Available	Expected Yield on Cost	Expected Completion Date
Current Developments:								
River Landing, Miami, FL[(1)]	100.0%	8.1	$495,932	$446,880	$49,052	$ -	5.0%	Q4 2020
Shoreline, Long Beach, CA[(2)]	31.2%	0.9	71,097	43,012	28,085	27,302	6.2%	Q3 2021
Hercules Project (Phase 1), Hercules, CA[(3)]	31.7%	2.2	26,041	24,450	1,591	3,156	6.5%	Q4 2020
Hercules Project (Phase 2), Hercules, CA[(3)]	31.7%	2.8	31,186	18,849	12,337	14,108	6.6%	Q2 2021
The Pearl, Austin, TX[(4)]	33.3%	5.0	23,201	20,432	2,769	4,313	6.2%	Q1 2021
Esterra Park, Seattle, WA[(5)]	33.3%	1.1	31,859	24,151	7,708	10,012	6.0%	Q1 2021
		20.1	**$679,316**	**$577,774**	**$101,542**	**$58,891**		
Future Developments[(6)]		89.4	-	82,384	-	-		
Total (in thousands of U.S. dollars)		**109.5**	**$679,316**	**$660,158**	**$101,542**	**$58,891**		

(1) Mixed use development consisting of 528 residential rental units, approximately 346,000 square feet of retail space and 149,000 square feet of office space. Refer to page 9 of this MD&A for further information.

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

(3) Total project spans 38.4 acres. Construction commenced in June 2018 on Phase 1 of this project which will consist of 172 residential rental units and 13,859 square feet of retail space. Construction commenced in March 2019 on Phase 2 of this project which will consist of 232 residential rental units. Future phases will be announced as further development information becomes available. Refer to page 16 of this MD&A for further information.

(4) Residential development consisting of 383 residential rental units which is close to major technology employers including Apple, IBM, Oracle and Samsung as well as the University of Texas at Austin and downtown Austin. Refer to page 16 of this MD&A for further information.

(5) 7-storey residential tower consisting of 263 residential rental units, which is part of a larger master planned community and is adjacent to transit, Microsoft Corporation's headquarters, and future light rail which is expected to be completed in 2023.

(6) Consists of five separate parcels of land in the United States totalling 89.4 acres. H&R has a 31.7% interest in one of the parcels amounting to U.S. $12.0 million at H&R's ownership interest. H&R is the sole owner of the remaining four parcels.

Equity Accounted Investments:

	September 30, 2020									December 31, 2019
(in thousands of Canadian dollars)	Jackson Park	ECHO	One U.S. Industrial Property	Hercules Project	The Pearl	Esterra Park	Shoreline	Other[1]	**Total[2]**	Total[2]
Investment properties	$1,064,347	$885,994	$16,119	$ -	$ -	$ -	$ -	$ -	**$1,966,460**	$1,921,820
Properties under development	-	24,745	-	73,523	27,174	32,121	57,207	-	**214,770**	146,238
Assets classified as held for sale	-	-	-	-	-	-	-	-	**-**	12,872
Other assets	5,921	15,587	97	-	11	33	$297	41	**21,987**	26,845
Cash and cash equivalents	20,614	9,682	1,589	994	1,026	44	4,887	229	**39,065**	36,763
Debt	(656,083)	(358,277)	-	(33,930)	(15,500)	(16,165)	(18,410)	-	**(1,098,365)**	(1,020,264)
Lease liability	-	(42,747)	-	-	-	-	-	-	**(42,747)**	(43,517)
Other liabilities	(9,701)	(46,106)	(267)	(4,334)	(2,975)	(2,070)	(7,996)	(1,392)	**(74,841)**	(77,984)
Equity accounted investments	$425,098	$488,878	$17,538	$36,253	$9,736	$13,963	$35,985	($1,122)	**$1,026,329**	$1,002,773

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

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

Long Island City Project-Jackson Park

Jackson Park, the 1,871 luxury residential rental unit development in Long Island City, NY, in which H&R has a 50% ownership interest, reached substantial completion and was transferred from properties under development to investment properties in Q1 2019.

ECHO

H&R owns a 33.6% interest in ECHO, a privately held real estate and development company which focuses on developing and owning a core portfolio of grocery anchored shopping centres, primarily in Pennsylvania and Ohio. ECHO reports its financial results to H&R one month in arrears. ECHO's financial information has been disclosed as at August 31, 2020 and November 30, 2019, respectively.

As at August 31, 2020, H&R's interest in ECHO consists of 242 investment properties totalling approximately 2.8 million square feet and 10 properties under development. Giant Eagle, Inc., a supermarket chain in the United States is ECHO's largest tenant with 201 locations encompassing approximately 1.6 million square feet at H&R's ownership interest with an average lease term to maturity of 10.9 years. Giant Eagle represents approximately 59.3% of revenue earned by ECHO.

U.S. Industrial Properties

As at September 30, 2020, H&R owns a 50.5% interest in one industrial property through a joint venture with its partners, which is located in the United States (December 31, 2019 - 3 properties located in the United States).

In February 2020, H&R purchased the remaining 49.5% interest in 7575 Brewster Ave., Philadelphia, PA for $15.4 million. As H&R now owns 100% of this property, it is now consolidated in the REIT's Financial Statements.

In August 2020, H&R sold its 50.5% interest in 200 Rock Run Rd., Fairless Hills, PA totalling 54,654 square feet for $4.2 million.

During the year ended December 31, 2019, H&R sold its 50.5% interest in the following properties:

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

(1) Square feet and selling price are based on the ownership interest disposed.
(2) U.S. dispositions have been translated to Canadian dollars at the exchange rate as at the date sold.

In addition, in 2019, H&R purchased the remaining 49.5% interest in 510 E. Courtland St., Morton, IL for $2.9 million. As H&R owns 100% of this property, it is now consolidated in the REIT's Financial Statements.

Hercules Project

H&R has a 31.7% non-managing ownership interest in 38.4 acres of land located in Hercules, CA, adjacent to San Pablo Bay, northeast of San Francisco, for the future development of residential rental units ("Hercules Project"). This waterfront, multi-phase, master-planned, in-fill mixed-use development surrounds a future intermodal transit centre, including train and ferry service, and is adjacent to an 11-acre waterfront future regional park. The initial investment to purchase the land was approximately U.S. $10.0 million (at H&R's ownership interest). As at September 30, 2020, H&R's equity investment was approximately U.S. $27.6 million.

Phase 1 of the Hercules Project, known as "The Exchange at Bayfront" will consist of 172 residential rental units, including lofts and townhomes and 13,859 square feet of ground level retail space. The four-storey podium project sits on 2.2 acres over a one-level subterranean parking garage. Construction commenced in June 2018. The total budget for Phase 1 is approximately U.S. $82.1 million and construction financing of U.S. $57.5 million was secured in July 2018, both at the 100% level. As at September 30, 2020, U.S. $47.5 million has been drawn on this construction facility at the 100% level. The leasing office opened in May 2020 and 112 leases have been entered into as at November 2, 2020. Phase 1 is expected to be transferred from properties under development to investment properties in Q4 2020.

Phase 2 of the Hercules Project, known as "The Grand at Bayfront" will consist of 232 residential rental units including a state-of-the-art fitness centre, bike shop, residents lounge and sporting club. It is situated on 2.8 acres of land and is located north/northeast of Phase 1. Construction commenced in March 2019. The total budget for Phase 2 is approximately U.S. $98.4 million and construction financing of approximately U.S. $65.4 million was secured in March 2019, both at the 100% level. As at September 30, 2020, U.S. $20.8 million has been drawn on this construction facility at the 100% level.

The remaining land parcels totalling 33.4 acres are secured against a U.S. $12.2 million land loan at the 100% level. Future phases will be announced as further development information becomes available.

The Pearl

H&R has a 33.3% non-managing ownership interest in approximately 5.0 acres of land in Austin, TX for the development of 383 residential rental units which will be known as "The Pearl". This residential development site is close to major technology employers including Apple, IBM, Oracle and Samsung, as well as the University of Texas at Austin and downtown Austin. Construction commenced in October 2018. The total budget for this project is approximately U.S. $69.7 million and construction financing of U.S. $47.9 million was secured in October 2018, both at the 100% level. As at September 30, 2020, H&R's equity investment was approximately U.S. $7.3 million and U.S. $35.0 million had been drawn on the construction facility, at the 100% level.

Esterra Park

H&R has a 33.3% non-managing ownership interest in a residential development site in Seattle, WA for the development of 263 residential rental units which will be known as "Esterra Park". This residential development site is part of a larger master planned community and is adjacent to Microsoft Corporation's headquarters, bus transit and future light rail which is expected to be completed in 2023. Construction commenced in November 2018. The total budget for this project is approximately U.S. $95.7 million and construction financing of U.S. $66.5 million was secured in October 2018, both at the 100% level. As at September 30, 2020, H&R's equity investment was approximately U.S. $10.5 million and U.S. $36.5 million had been drawn on the construction facility, at the 100% level.

Shoreline

H&R has a 31.2% non-managing ownership interest in a residential development site which will consist of a 315 luxury residential rental unit tower with 6,450 square feet of retail space. Located in Long Beach, CA, "Shoreline Gateway" will become the tallest residential tower in Long Beach with 35 floors enjoying views overlooking the Pacific Ocean. Construction commenced in November 2018. The total budget for this project is approximately U.S. $227.1 million and construction financing of U.S. $132.0 million was secured in December 2018, both at the 100% level. As at September 30, 2020, H&R's equity investment was approximately U.S. $27.1 million and U.S. $44.4 million had been drawn on the construction facility, at the 100% level.

Assets and Liabilities Classified as Held for Sale

As at September 30, 2020, H&R had one U.S. office property with a fair value of $219.5 million classified as held for sale. As at December 31, 2019, H&R had two U.S. residential properties and a 50% ownership interest in one industrial property with total assets of $135.7 million and liabilities of $49.4 million classified as held for sale.

Other Assets

(in thousands of Canadian dollars)	**September 30, 2020**	December 31, 2019
Mortgages receivable	**$344,808**	$555,030
Prepaid expenses and sundry assets	**70,746**	49,691
Accounts receivable - net of provision for bad debts of $36,473 (2019 - $2,143)	**20,213**	11,360
Restricted cash	**18,094**	7,931
Derivative instruments	**-**	752
	$453,861	$624,764

Mortgages receivable decreased by $210.2 million to $344.8 million as at September 30, 2020, primarily due to the repayment of a $256.0 million mortgage receivable that was issued as part of the sale of the Atrium in June 2019. This was partially offset by a second advance of $46.8 million for two existing U.S. mortgage receivables secured by land.

Accounts receivable increased by $8.9 million to $20.2 million as at September 30, 2020, primarily due to retail tenants who were impacted by COVID-19. H&R has been working with many of these tenants by providing rent deferrals and abatements as well as applying with tenants for the Government of Canada's CECRA program. As at September 30, 2020, accounts receivable amounted to 1.8% of annual rentals from investment properties compared to 1.0% as at December 31, 2019. Refer to page 6 of this MD&A for further discussion on the CECRA program as well as H&R's provision for bad debts.

Restricted cash increased by $10.2 million to $18.1 million as at September 30, 2020, primarily due to an increase of $8.6 million relating to contractual mortgage interest due in December 2020.

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

LIABILITIES AND UNITHOLDERS' EQUITY

	September 30, 2020	December 31, 2019
Debt to total assets per the REIT's Financial Statements[1]	**47.2%**	44.4%
Debt to total assets at the REIT's proportionate share[1][2]	**50.8%**	47.7%
Unencumbered assets[3] (in thousands of Canadian dollars)	**$3,484,038**	$3,959,871
Unsecured debt[3] (in thousands of Canadian dollars)	**$2,276,606**	$2,399,902
Unencumbered asset to unsecured debt coverage ratio[3]	**1.53**	1.65
Interest coverage ratio[2]	**3.10**	3.05
Weighted average interest rate of debt[1]	**3.6%**	3.8%
Weighted average term to maturity of debt (in years)[1]	**3.7**	3.9
Weighted average interest rate of debt at the REIT's proportionate share[1][2]	**3.6%**	3.8%
Weighted average term to maturity of debt (in years) at the REIT's proportionate share[1][2]	**4.2**	4.6

(1) Debt includes mortgages payable, debentures payable, unsecured term loans and lines of credit.
(2) These are non-GAAP measures. Refer to the "Non-GAAP Financial Measures" section of this MD&A.
(3) Unencumbered assets are investment properties and properties under development without encumbrances for mortgages or lines of credit. Unsecured debt includes debentures payable, unsecured term loans and unsecured lines of credit.

Debt

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

(in thousands of Canadian dollars)	**September 30, 2020**	December 31, 2019
Mortgages payable	**$3,717,712**	$3,630,858
Debentures payable	**1,319,492**	1,257,731
Unsecured term loans	**696,429**	692,229
Lines of credit	**544,935**	795,042
	$6,278,568	$6,375,860

(in thousands of Canadian dollars)	Mortgages Payable	Debentures Payable	Unsecured Term Loans	Lines of Credit	Total
Opening balance, January 1, 2020	$3,630,858	$1,257,731	$692,229	$795,042	$6,375,860
Scheduled amortization payments	(89,745)	-	-	-	(89,745)
Debt repayment and redemptions	(32,234)	(337,500)	-	-	(369,734)
New debt	175,421	$397,900	-	-	573,321
Net repayments	-	-	-	(261,372)	(261,372)
Effective interest rate accretion	1,876	1,361	-	-	3,237
Change in foreign exchange	31,536	-	4,200	11,265	47,001
Closing balance, September 30, 2020	$3,717,712	$1,319,492	$696,429	$544,935	$6,278,568

Mortgages Payable Future Mortgage Principal Payments	Periodic Amortized Principal ($000's)	Principal on Maturity ($000's)	Total Principal ($000's)	% of Total Principal	Weighted Average Interest Rate on Maturity
2020[1]	$32,746	$39,019	$71,765	1.9	5.3%
2021	108,206	833,015	941,221	25.2	3.9%
2022	69,443	543,478	612,921	16.4	3.9%
2023	62,425	395,434	457,859	12.3	3.9%
2024	54,610	5,913	60,523	1.6	3.9%
2025	43,900	108,999	152,899	4.1	3.9%
Thereafter			1,434,550	38.5	
			3,731,738	100%	
Financing costs and mark-to-market adjustments arising on acquisitions[2]			(14,026)		
Total balance outstanding as at September 30, 2020			$3,717,712		

(1) For the balance of the year.

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

The mortgages outstanding as at September 30, 2020 bear interest at a weighted average rate of 4.0% (December 31, 2019 – 4.1%) and mature between 2020 and 2032 (December 31, 2019 – maturing between 2020 and 2032). The weighted average term to maturity of the REIT's mortgages is 4.3 years (December 31, 2019 – 4.8 years). For a further discussion of liquidity refer to "Funding of Future Commitments". For a further discussion of interest rate risk, refer to the "Risks and Uncertainties" section of this MD&A.

					September 30, 2020	December 31, 2019
Debentures Payable (in thousands of Canadian Dollars)	**Maturity**	**Contractual Interest Rate**	**Effective Interest Rate**	**Principal Amount**	**Carrying Value**	Carrying Value
Senior Debentures						
Series P Senior Debentures[1]	February 13, 2020	3.67%	[1]	$ -	**$ -**	$162,469
Series F Senior Debentures[2]	March 2, 2020	4.45%	4.58%	-	**-**	174,954
Series L Senior Debentures	May 6, 2022	2.92%	3.11%	325,000	**323,535**	322,862
Series O Senior Debentures	January 23, 2023	3.42%	3.44%	250,000	**249,285**	249,065
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	**348,662**	348,381
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	**398,010**	-
		3.48%	3.59%	$1,325,000	**$1,319,492**	$1,257,731

(1) Denominated as $125,000 U.S. dollars and bore interest at a rate equal to the 3-month London Interbank Offered Rate plus 79 basis points. The REIT entered into an interest rate swap on the Series P senior debentures to fix the interest rate at 3.67% per annum. In February 2020, the REIT repaid all of its Series P senior debentures upon maturity for a cash payment of U.S. $125.0 million.

(2) In March 2020, the REIT repaid all of its Series F senior debentures upon maturity for a cash payment of $175.0 million.

In June 2020, H&R issued $400.0 million principal amount of 4.071% Series Q Senior Debentures maturing June 16, 2025.

Unsecured Term Loans (in thousands of Canadian Dollars)	Maturity Date	**September 30, 2020**	December 31, 2019
H&R unsecured term loan #1[(1)]	March 17, 2021	$**196,429**	$192,229
H&R unsecured term loan #2[(2)]	March 7, 2024	**250,000**	250,000
H&R unsecured term loan #3[(3)]	January 6, 2026	**250,000**	250,000
		$696,429	$692,229

(1) The total facility as at September 30, 2020 is $200.0 million, plus a 3% allowance relating to the fluctuation of the foreign exchange rate, and can be drawn in either Canadian or U.S. dollars. The REIT entered into an interest rate swap to fix the interest rate at 2.56% per annum on U.S. $130.0 million of the U.S. dollar denominated borrowing of this facility. The swap matures March 17, 2021.

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

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

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 #1	April 17, 2021	$500,000	$ -	$ -	$500,000
H&R revolving unsecured line of credit #2	September 20, 2022	150,000	(144,975)	-	5,025
H&R revolving unsecured line of credit #3	January 31, 2023	200,000	(115,710)	-	84,290
H&R revolving unsecured line of credit #4	September 20, 2023	350,000	-	(1,985)	348,015
H&R revolving unsecured letter of credit facility		60,000	-	(30,922)	29,078
Sub-total		1,260,000	(260,685)	(32,907)	966,408
Revolving secured operating lines of credit[(1)]					
H&R and CrestPSP revolving secured line of credit[(2)]	April 30, 2021	62,500	(51,500)	(105)	10,895
Primaris revolving secured line of credit	December 31, 2021	300,000	(232,750)	-	67,250
Sub-total		362,500	(284,250)	(105)	78,145
September 30, 2020		**$1,622,500**	**($544,935)**	**($33,012)**	**$1,044,553**
December 31, 2019		$1,122,500	($795,042)	($36,881)	$290,577

(1) Secured by certain investment properties.

(2) In October 2020, the revolving secured line of credit agreement was amended to extend the maturity date from October 30, 2020 to April 30, 2021.

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

Exchangeable Units

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

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

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, 2020	**14,883,065**	**$9.67**	**$143,919**
As at December 31, 2019	15,316,239	$21.10	$323,173

In August 2020, 433,174 exchangeable units were exchanged for Units. As a subsidiary of the REIT previously held 433,174 Units to mirror these exchangeable units, the number of outstanding Units did not increase as a result of this exchange.

Deferred Tax Liability

H&R has certain subsidiaries in the United States that are subject to tax on their taxable income at a combined federal and state tax rate of approximately 23.5% in 2020 (2019 – 23.6%).

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

(in millions of Canadian dollars)	**September 30, 2020**	December 31, 2019
Deferred tax assets:		
Net operating losses	**$74.2**	$24.9
Accounts payable and accrued liabilities	**0.5**	0.9
Other assets	**4.0**	1.0
	78.7	26.8
Deferred liabilities:		
Investment properties	**312.8**	309.7
Equity accounted investments	**138.0**	126.5
	450.8	436.2
Deferred tax liability	**($372.1)**	($409.4)

The deferred tax liability relating to the investment properties is derived on the basis that the U.S. investment properties will be sold at their current fair value. The tax liability will only be realized upon an actual disposition of a property that is not subject to a Section 1031 property exchange. Deferred tax liability decreased by $37.3 million from $409.4 million as at December 31, 2019 to $372.1 million as at September 30, 2020 primarily due to certain income tax regulations released by the Internal Revenue Service in July 2020 resulting in the REIT recognizing a deferred tax recovery of $46.8 million during the nine months ended September 30, 2020.

Unitholders' Equity

Unitholders' equity decreased by $888.4 million from approximately $7.0 billion as at December 31, 2019 to approximately $6.2 billion as at September 30, 2020. The decrease is primarily due to the net loss from the fair value adjustments discussed on page 5 of this MD&A.

Normal Course Issuer Bid ("NCIB")

On December 10, 2019, the REIT received approval from the TSX for the renewal of its NCIB, allowing the REIT to purchase for cancellation up to a maximum of 15.0 million Units on the open market until the earlier of December 16, 2020 or the date on which the REIT purchased the maximum number of Units permitted under the NCIB. During the three and nine months ended September 30, 2020 and the year ended December 31, 2019, the REIT did not purchase and cancel any Units.

Unitholders' Equity per Unit and NAV per Unit	**September 30, 2020**	December 31, 2019
Unitholders' equity	**$6,155,538**	$7,043,917
Exchangeable units	**143,919**	323,173
Deferred tax liability	**372,143**	409,381
Total	**$6,671,600**	$7,776,471
Units outstanding (in thousands of Units)	**286,863**	286,690
Exchangeable units outstanding (in thousands of Units)	**14,883**	14,883
Total (in thousands of Units)	**301,746**	301,573
Unitholders' equity per Unit[(1)]	**$21.46**	$24.57
NAV per Unit[(2)]	**$22.11**	$25.79
Unit Price	**$9.67**	$21.10

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

Unitholders' equity per Unit and NAV per Unit decreased by $3.11 per Unit and $3.68 per Unit, respectively, from December 31, 2019 to September 30, 2020 primarily due to the fair value adjustment of certain office and retail properties recognized in Q1 2020 of approximately $1.3 billion (further discussed on page 5 of this MD&A). Offsetting part of this decline was the strengthening of the U.S. dollar which was $1.30 for each U.S. $1.00 at December 31, 2019 compared to $1.33 for each U.S. $1.00 at September 30, 2020.

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	
	2020	2019	**2020**	2019
For each U.S. $1.00	**$1.33 CAD**	$1.33 CAD	**$1.35 CAD**	$1.33 CAD

	Three months ended September 30		Nine months ended September 30	
(in thousands of Canadian dollars)	**2020**	2019	**2020**	2019
Property operating income:				
Rentals from investment properties	**$271,612**	$281,571	**$821,171**	$867,229
Property operating costs	**(95,841)**	(96,327)	**(341,121)**	(341,029)
	175,771	185,244	**480,050**	526,200
Net income (loss) from equity accounted investments	**9,195**	(18,414)	**27,711**	(5,757)
Finance costs - operations	**(56,894)**	(64,216)	**(171,994)**	(195,389)
Finance income	**8,914**	4,949	**26,268**	9,024
Trust expenses	**(4,884)**	(8,423)	**(4,357)**	(35,665)
Fair value adjustment on financial instruments	**1,721**	(4,760)	**127,058**	(62,090)
Fair value adjustment on real estate assets	**93,000**	(25,258)	**(1,265,918)**	(60,214)
Gain (loss) on sale of real estate assets	**20**	1,800	**(2,167)**	25,643
Net income (loss) before income taxes	**226,843**	70,922	**(783,349)**	201,752
Income tax (expense) recovery	**21,006**	(1,621)	**47,146**	(24,865)
Net income (loss)	**247,849**	69,301	**(736,203)**	176,887
Other comprehensive income (loss):				
Items that are or may be reclassified subsequently to net income (loss)	**(70,610)**	20,157	**59,645**	(81,408)
Total comprehensive income (loss) attributable to unitholders	**$177,239**	$89,458	**($676,558)**	$95,479

The primary reason for the decrease in rentals from investment properties is net disposition activity over the past 21 months. The REIT completed approximately $1.0 billion of asset sales compared to $206.6 million of acquisitions over the past 21 months, substantially repositioning its portfolio and enhancing its internal growth profile. H&R continues to actively reallocate capital through property dispositions to fund value-creating developments, expand its residential rental platform and strengthen its balance sheet.

Property operating income and Same-Asset property operating income (cash basis) decreased for the three and nine months ended September 30, 2020 compared to the respective 2019 periods primarily due to a provision for bad debts taken as a result of the impact of COVID-19 further discussed on page 6 of this MD&A, which predominantly impacted H&R's retail segment.

Net income from equity accounted investments for the three and nine months ended September 30, 2020 compared to the respective 2019 periods increased by $27.6 million and $33.5 million, respectively, primarily due to the fair value adjustment on real estate assets. As part of the debt refinancing of Jackson Park in Q3 2019, an independent third party appraisal was obtained and the fair value decreased by U.S. $18.7 million at H&R's ownership interest. This decrease was due to the "Housing Stability and Tenant Protection Act of 2019" passed by New York State in June 2019 regarding affordable housing, rent controls and tenant protection.

Net income before income taxes increased by $155.9 million for the three months ended September 30, 2020 compared to the respective 2019 period primarily due to the fair value adjustment on real estate assets and the increase in net income from equity accounted investments discussed above.

Net income (loss) before income taxes decreased by $985.1 million for the nine months ended September 30, 2020 compared to the respective 2019 period primarily due to the fair value adjustment of certain office and retail properties (further discussed on page 5 of this MD&A) of approximately $1.3 billion and an increase in the provision for bad debts discussed on page 6 of this MD&A as well as properties sold. This was partially offset by the following: (i) fair value adjustments on financial instruments and unit-based compensation, primarily due to H&R's Unit price decreasing from $21.10 as at December 31, 2019 to

$9.67 as at September 30, 2020; (ii) the increase in net income from equity accounted investments discussed above (iii) higher finance income and lower finance costs.

PROPERTY OPERATING INCOME

Property operating income consists of rentals from investment properties less property operating costs. Management believes that property operating income is a useful measure for investors in assessing the performance of H&R's properties before financing costs and other sources of income and expenditures which are not directly related to the day-to-day operations of a property. Same-Asset property operating income (cash basis) adjusts property operating income (including property operating income from equity accounted investments on a proportionately consolidated basis) to exclude straight-lining of contractual rent and realty taxes accounted for under IFRIC 21. "Same-Asset" refers to those properties owned by H&R for the entire 21-month period ended September 30, 2020. It excludes acquisitions, business combinations, dispositions and transfers of properties under development to investment properties during the 21-month period ended September 30, 2020 (collectively, "Transactions"). Management believes that this measure is useful for investors as it adjusts property operating income (including property operating income from equity accounted investments on a proportionately consolidated basis) for non-cash items which allows investors to better understand period-over-period changes due to occupancy, rental rates, realty taxes and operating costs, before evaluating the changes attributable to Transactions. Furthermore, it is also used as a key input in determining the value of investment properties.

	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2020**	2019	Change	**2020**	2019	Change
Rentals	**$271,612**	$281,571	($9,959)	**$821,171**	$867,229	($46,058)
Property operating costs (excluding bad debts)	**(83,237)**	(95,887)	12,650	**(304,648)**	(339,716)	35,068
Property operating income (excluding bad debts)	**188,375**	185,684	2,691	**516,523**	527,513	(10,990)
Provision for bad debts	**(12,604)**	(440)	(12,164)	**(36,473)**	(1,313)	(35,160)
Property operating income	**175,771**	185,244	(9,473)	**480,050**	526,200	(46,150)
Adjusted for:						
Proportionate share of property operating income from equity accounted investments[1]	**20,016**	25,022	(5,006)	**66,322**	68,757	(2,435)
Straight-lining of contractual rent at the REIT's proportionate share[1]	**(2,912)**	(1,977)	(935)	**(6,001)**	(6,898)	897
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share[1]	**(12,367)**	(12,419)	52	**12,229**	12,436	(207)
Property operating income (cash basis) from Transactions at the REIT's proportionate share[1]	**(4,280)**	(9,386)	5,106	**(12,088)**	(38,577)	26,489
Same-Asset property operating income (cash basis)[2]	**$176,228**	$186,484	($10,256)	**$540,512**	$561,918	($21,406)

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

Property operating income decreased by $9.5 million for the three months ended September 30, 2020 compared to the respective 2019 period primarily due to the increase in the provision for bad debts as a result of the impact of COVID-19 and properties sold. This was partially offset by the following: (i) an increase in occupancy; and (ii) an increase in revenue from rental rate growth and the stabilization of various assets in the portfolio.

Property operating income decreased by $46.2 million for the nine months ended September 30, 2020 compared to the respective 2019 period primarily due to the following: (i) an increase in the provision for bad debts as a result of the impact of COVID-19; (ii) properties sold; and (iii) a decrease in lease termination fees. This was partially offset by the following: (i) an increase in property operating income due to the strengthening of the U.S. dollar; (ii) a decrease in operating expenses as a result of the impact of properties being closed or partially closed due to COVID-19; and (iii) an increase in revenue from rental rate growth and the stabilization of various assets in the portfolio.

Refer to page 6 of this MD&A for a further breakdown of the REIT's provision for bad debts. For a list of property dispositions, refer to page 12 of this MD&A.

Property operating income from equity accounted investments for the three months ended September 30, 2020 compared to the respective 2019 period decreased by $5.0 million primarily due to Jackson Park which has been negatively impacted by lower than average lease renewals and apartment traffic due to COVID-19 as well as properties sold. H&R believes Jackson Park's decline is temporary and expects operating fundamentals to improve in the upcoming quarters. Property operating income from equity accounted investments for the nine months ended September 30, 2020 compared to the

respective 2019 period decreased by $2.4 million primarily due to properties sold as well as ECHO having a positive adjustment of $0.4 million in Q1 2019 as a result of the initial adoption of IFRS 16 and additional one-time operating recoveries earned in Q1 2019.

SEGMENTED INFORMATION

Operating Segments and Geographic Locations:

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

The Office segment consists of a portfolio of 27 properties throughout Canada and six properties in select markets in the United States, aggregating 10.8 million square feet, at H&R's ownership interest, with an average lease term to maturity of 11.7 years as at September 30, 2020. The Office portfolio is leased on a long-term basis to creditworthy tenants, with 85.3% of office revenue from tenants with investment grade ratings. With a very long average lease term and high credit tenants, this segment tends to generate very stable, gradual growth in property operating income driven by contractual rental rate increases, and to a lesser extent, lease renewals.

The Retail segment consists of a portfolio of 67 properties throughout Canada which includes enclosed shopping centres, single-tenant retail properties and multi-tenant retail plazas as well as 16 single-tenant retail properties in the United States. In addition, it also holds a 33.6% interest in ECHO, a privately held real estate and development company which focuses on developing and owning a core portfolio of grocery anchored shopping centres in the United States. In total, this segment includes 67 properties in Canada and 258 properties in the United States comprising 13.2 million square feet, at H&R's ownership interest, with an average lease term to maturity of 6.4 years as at September 30, 2020.

The Industrial segment consists of 83 industrial properties throughout Canada and three properties in the United States comprising 8.9 million square feet, at H&R's ownership interest, with an average lease term to maturity of 6.4 years as at September 30, 2020.

The Residential segment consists of 22 residential properties in select markets in the United States comprising 7,777 residential rental units, at H&R's ownership interest, as at September 30, 2020. The investment policy of Lantower Residential is to acquire or develop class A properties in U.S. Sun Belt cities where there is strong population and employment growth and to develop properties with partners in gateway cities.

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

	Property operating income						Occupancy	
	Three months ended September 30			Nine months ended September 30			As at September 30	
(in thousands of Canadian dollars)	**2020**	2019	% Change	**2020**	2019	% Change	**2020**	2019
Operating Segment:								
Office[1]	**$93,994**	$93,136	0.9%	**$267,713**	$285,841	(6.3%)	**99.6%**	98.3%
Retail	**54,882**	64,104	(14.4%)	**153,624**	185,546	(17.2%)	**91.5%**	89.4%
Industrial	**15,293**	15,051	1.6%	**46,634**	46,560	0.2%	**97.5%**	96.5%
Residential	**31,618**	37,975	(16.7%)	**78,401**	77,010	1.8%	**88.6%**	91.4%
The REIT's proportionate share	**195,787**	210,266	(6.9%)	**546,372**	594,957	(8.2%)	**94.5%**	93.7%
Less: equity accounted investments	**(20,016)**	(25,022)	(20.0%)	**(66,322)**	(68,757)	(3.5%)	**90.7%**	96.6%
The REIT's Financial Statements	**$175,771**	$185,244	(5.1%)	**$480,050**	$526,200	(8.8%)	**94.9%**	93.3%
Geographic Location:								
Canada[2]	**$116,950**	$125,387	(6.7%)	**$345,965**	$397,410	(12.9%)	**95.3%**	93.3%
United States[2]	**78,837**	84,879	(7.1%)	**200,407**	197,547	1.4%	**92.8%**	94.4%
The REIT's proportionate share	**195,787**	210,266	(6.9%)	**546,372**	594,957	(8.2%)	**94.5%**	93.7%
Less: equity accounted investments	**(20,016)**	(25,022)	(20.0%)	**(66,322)**	(68,757)	(3.5%)	**90.7%**	96.6%
The REIT's Financial Statements	**$175,771**	$185,244	(5.1%)	**$480,050**	$526,200	(8.8%)	**94.9%**	93.3%

(1) Includes the REIT's head office.
(2) Property operating income relating to corporate entities has been included in Canada for Canadian properties and the United States for U.S. properties.

The average exchange rate for the three months ended September 30, 2020 was $1.33 for each U.S. $1.00 (Q3 2019 - $1.33). The average exchange rate for the nine months ended September 30, 2020 was $1.35 for each U.S. $1.00 (September 30, 2019 - $1.33). Property operating income across all operating segments was positively impacted by the strengthening of the U.S. dollar for the nine months ended September 30, 2020 compared to the respective 2019 period. The following explanations for changes in property operating income are in addition to the foreign exchange impact.

Property operating income from office properties decreased by 6.3% for the nine months ended September 30, 2020 compared to the respective 2019 period primarily due to properties sold throughout 2019 and lease termination fees of $3.2 million received in 2020 compared to $5.9 million in 2019.

Property operating income from retail properties decreased by 14.4% and 17.2%, respectively, for the three and nine months ended September 30, 2020 compared to the respective 2019 periods, primarily due to the provision for bad debts as a result of the impact of COVID-19. Refer to page 6 of this MD&A for a further breakdown of the REIT's provision for bad debts. This was partially offset by an increase in occupancy mainly due to the re-leasing of former Target & Sears space.

Property operating income from industrial properties increased by 1.6% and 0.2%, respectively, for the three and nine months ended September 30, 2020 compared to the respective 2019 periods primarily due to an increase in same-asset occupancy and rental rates, partially offset by properties sold.

Property operating income from residential properties decreased by 16.7% for the three months ended September 30, 2020 compared to the respective 2019 period primarily due to Jackson Park, which has been negatively impacted by lower than average lease renewals and apartment traffic due to COVID-19, as well as properties sold. H&R believes Jackson Park's decline is temporary and expects operating fundamentals to improve in the upcoming quarters. Property operating income from residential properties increased by 1.8% for the nine months ended September 30, 2020 compared to the respective 2019 period primarily due to an increase in revenue from rental rate growth and the stabilization of various assets in the portfolio, partially offset by an increase in the provision for bad debts as a result of the impact of COVID-19, as well as properties sold.

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

	Same-Asset property operating income (cash basis)[1]						Occupancy (same asset)	
	Three months ended September 30			Nine months ended September 30			As at September 30	
(in thousands of Canadian dollars)	**2020**	2019	% Change	**2020**	2019	% Change	**2020**	2019
Operating Segment:								
Office[2]	**$87,605**	$85,883	2.0%	**$264,668**	$264,465	0.1%	**99.6%**	98.3%
Retail	**51,268**	60,791	(15.7%)	**152,321**	184,037	(17.2%)	**91.5%**	89.4%
Industrial	**14,320**	13,338	7.4%	**43,122**	40,762	5.8%	**98.5%**	96.3%
Residential	**23,035**	26,472	(13.0%)	**80,401**	72,654	10.7%	**88.3%**	92.7%
The REIT's proportionate share (page 24)	**$176,228**	$186,484	(5.5%)	**$540,512**	$561,918	(3.8%)	**94.8%**	93.9%
Geographic Location:								
Ontario[3]	**$50,671**	$51,767	(2.1%)	**$150,763**	$163,704	(7.9%)	**97.1%**	94.3%
Alberta	**47,029**	49,972	(5.9%)	**138,829**	149,904	(7.4%)	**92.9%**	92.2%
Other Canada	**15,965**	18,189	(12.2%)	**47,021**	54,886	(14.3%)	**96.4%**	93.0%
Total – Canada	**113,665**	119,928	(5.2%)	**336,613**	368,494	(8.7%)	**95.6%**	93.4%
United States[3]	**62,563**	66,556	(6.0%)	**203,899**	193,424	5.4%	**92.8%**	95.2%
The REIT's proportionate share (page 24)	**$176,228**	$186,484	(5.5%)	**$540,512**	$561,918	(3.8%)	**94.8%**	93.9%
United States in U.S. dollars:								
Office[2]	**$17,590**	$17,232	2.1%	**$53,465**	$51,064	4.7%	**100.0%**	100.0%
Retail	**11,640**	12,508	(6.9%)	**36,437**	38,523	(5.4%)	**96.6%**	96.8%
Industrial	**507**	397	27.7%	**1,577**	1,215	29.8%	**100.0%**	100.0%
Residential	**17,376**	19,904	(12.7%)	**59,556**	54,627	9.0%	**88.3%**	92.7%
U.S. total in U.S. dollars	**$47,113**	$50,041	(5.9%)	**$151,035**	$145,429	3.9%	**92.8%**	95.2%

(1) Same-Asset property operating income (cash basis) is a non-GAAP measure defined in the "Non-GAAP Financial Measures" section of this MD&A.
(2) Includes the REIT's head office.
(3) Property operating income relating to corporate entities has been included in Ontario for Canadian properties and the United States for U.S. properties.

Same-Asset property operating income (cash basis) decreased by 5.5% and 3.8%, respectively, for the three and nine months ended September 30, 2020 compared to the respective 2019 periods primarily due to the provision for bad debts as a result of the impact of COVID-19 predominantly impacting H&R's retail segment. Refer to page 6 of this MD&A for a further breakdown of the REIT's provision for bad debts.

The average exchange rate for the three months ended September 30, 2020 was $1.33 for each U.S. $1.00 (Q3 2019 - $1.33). The average exchange rate for the nine months ended September 30, 2020 was $1.35 for each U.S. $1.00 (September 30, 2019 - $1.33). Same-Asset property operating income (cash basis) across all operating segments was positively impacted by the strengthening of the U.S. dollar for the nine months ended September 30, 2020 compared to the respective 2019 period. The following explanations for changes in Same-Asset property operating income (cash basis) are in addition to the positive foreign exchange impact.

Same-Asset property operating income (cash basis) from office properties increased by 2.0% and 0.1%, respectively, for the three and nine months ended September 30, 2020 compared to the respective 2019 periods primarily due to contractual rental escalations and an increase in occupancy. Included in the three and nine months ended September 30, 2020 were lease termination fees of $0.3 million and $3.2 million, respectively, compared to nil and $5.8 million for the three and nine months ended September 30, 2019, respectively. Excluding lease termination fees, Same-Asset property operating income increased by 1.7% and 1.1%, respectively.

Same-Asset property operating income (cash basis) from retail properties decreased by 15.7% and 17.2% for the three and nine months ended September 30, 2020 compared to the respective 2019 periods primarily due to the provision for bad debts as a result of the impact of COVID-19. Excluding the provision for bad debts, Same-Asset property operating income increased by 5.3% and 2.1%, respectively, which was primarily due to an increase in occupancy mainly due to the re-leasing of former Target & Sears space.

Same-Asset property operating income (cash basis) from industrial properties increased by 7.4% and 5.8%, respectively, for the three and nine months ended September 30, 2020 compared to the respective 2019 periods primarily due to an increase in occupancy and rental rates.

Same-Asset property operating income (cash basis) from residential properties in U.S. dollars decreased by 12.7% for the three months ended September 30, 2020 compared to the respective 2019 period primarily due to Jackson Park which has been negatively impacted by lower than average lease renewals and apartment traffic due to COVID-19. H&R believes this decline is temporary and expects operating fundamentals to improve in the upcoming quarters.

Excluding Jackson Park, Same-Asset property operating income (cash basis) from residential properties in U.S. dollars increased by 4.1% and 8.5%, respectively, for the three and nine months ended September 30, 2020 compared to the respective 2019 periods primarily due to an increase in revenue from rental rate growth and the stabilization of various assets in the portfolio, partially offset by an increase in the provision for bad debts as a result of the impact of COVID-19.

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

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

	Three Months Ended September 30		Nine Months ended September 30	
(in thousands of Canadian dollars)	**2020**	2019	**2020**	2019
Rentals from investment properties	**$28,627**	$31,604	**$94,002**	$92,121
Property operating costs	**(8,611)**	(6,582)	**(27,680)**	(23,364)
Property operating income	**20,016**	25,022	**66,322**	68,757
Net income from equity accounted investments	**153**	95	**344**	502
Finance cost - operations	**(9,701)**	(9,467)	**(29,862)**	(28,694)
Finance income	**55**	126	**248**	1,121
Trust expenses	**(925)**	(807)	**(3,103)**	(2,950)
Fair value adjustment on financial instruments	**205**	(1,928)	**(1,829)**	(7,501)
Fair value adjustment on real estate assets	**38**	(31,082)	**(2,096)**	(33,385)
Loss on sale of real estate assets	**(514)**	(28)	**(1,811)**	(2,623)
Income tax (expense) recovery	**(23)**	(22)	**126**	(50)
Non-controlling interest	**(109)**	(323)	**(628)**	(934)
Net income (loss) from equity accounted investments	**9,195**	(18,414)	**27,711**	(5,757)
Realty taxes in accordance with IFRIC 21	**(1,220)**	(1,264)	**1,160**	1,263
Fair value adjustments on financial instruments and real estate assets	**(243)**	33,010	**3,925**	40,886
Loss on sale of real estate assets	**514**	28	**1,811**	2,623
Deferred income tax expense (recovery)	**(1)**	1	**10**	(164)
Operational revenue and expenses from right-of-use assets	**-**	-	**-**	(415)
Incremental leasing costs	**153**	-	**453**	75
Notional interest capitalization[2]	**750**	563	**2,208**	1,854
FFO from equity accounted investments	**9,148**	13,924	**37,278**	40,365
Straight-lining of contractual rent	**(388)**	(542)	**354**	(1,948)
Capital expenditures	**(270)**	(1,944)	**(1,615)**	(3,191)
Leasing expenses and tenant inducements	**(212)**	(254)	**(536)**	(596)
Incremental leasing costs	**(153)**	-	**(453)**	(75)
AFFO from equity accounted investments	**$8,125**	$11,184	**$35,028**	$34,555

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

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

Property operating income from equity accounted investments for the three months ended September 30, 2020 compared to the respective 2019 period decreased by $5.0 million primarily due to Jackson Park, which has been negatively impacted by lower than average lease renewals and apartment traffic due to COVID-19 as well as properties sold. H&R believes Jackson Park's decline is temporary and expects operating fundamentals to improve in the upcoming quarters. Property operating income from equity accounted investments for the nine months ended September 30, 2020 compared to the respective 2019 period decreased by $2.4 million primarily due to properties sold as well as ECHO having a positive adjustment of $0.4 million in Q1 2019 as a result of the initial adoption of IFRS 16 and additional one-time operating recoveries earned in Q1 2019.

Net income (loss) from equity accounted investments for the three and nine months ended September 30, 2020 compared to the respective 2019 periods increased by $27.6 million and $33.5 million, respectively, primarily due to the fair value adjustment on real estate assets. As part of the debt refinancing of Jackson Park in Q3 2019, an independent third party appraisal was obtained and the fair value decreased by U.S. $18.7 million at H&R's ownership interest. This decrease was due to the "Housing Stability and Tenant Protection Act of 2019" passed by New York State in June 2019 regarding affordable housing, rent controls and tenant protection.

FFO from equity accounted investments for the three and nine months ended September 30, 2020 compared to the respective 2019 periods decreased by $4.8 million and $3.1 million, respectively, primarily due to the decrease in property operating income noted above and higher finance costs from Jackson Park as a result of a new U.S. $500.0 million mortgage secured in Q3 2019 at H&R's ownership interest.

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)	**2020**	2019	Change	**2020**	2019	Change
Finance costs – operations:						
Contractual interest on mortgages payable	**($37,668)**	($41,569)	$3,901	**($113,340)**	($125,866)	$12,526
Contractual interest on debentures payable	**(11,603)**	(11,339)	(264)	**(29,199)**	(36,278)	7,079
Contractual interest on unsecured term loans	**(5,785)**	(5,895)	110	**(17,163)**	(15,981)	(1,182)
Bank interest and charges on lines of credit	**(2,954)**	(3,651)	697	**(13,385)**	(9,935)	(3,450)
Effective interest rate accretion	**(1,291)**	(1,067)	(224)	**(3,260)**	(3,172)	(88)
Exchangeable unit distributions	**(2,592)**	(5,505)	2,913	**(11,399)**	(16,514)	5,115
	(61,893)	(69,026)	7,133	**(187,746)**	(207,746)	20,000
Capitalized interest	**4,999**	4,810	189	**15,752**	12,357	3,395
	(56,894)	(64,216)	7,322	**(171,994)**	(195,389)	23,395
Finance income	**8,914**	4,949	3,965	**26,268**	9,024	17,244
Fair value adjustment on financial instruments	**1,721**	(4,760)	6,481	**127,058**	(62,090)	189,148
	($46,259)	($64,027)	$17,768	**($18,668)**	($248,455)	$229,787

The decrease in contractual interest on mortgages payable of $3.9 million and $12.5 million, respectively, for the three and nine months ended September 30, 2020 compared to the respective 2019 periods is primarily due to mortgages repaid upon maturity totalling $575.7 million partially offset by the issuance of new mortgages totalling $400.1 million since January 1, 2019.

The decrease in contractual interest on debentures payable of $7.1 million for the nine months ended September 30, 2020 compared to the respective 2019 period is primarily due to the repayment of an aggregate of $687.5 million of senior debentures since March 2019 partially offset by the $400.0 million of Series Q Senior Debentures issued in June 2020.

The increase in contractual interest on unsecured term loans of $1.2 million for the nine months ended September 30, 2020 compared to the respective 2019 period is primarily due to H&R obtaining a $250.0 million unsecured term loan on March 7, 2019.

The decrease in bank interest and charges on lines of credit of $0.7 million for the three months ended September 30, 2020 compared to the respective 2019 period is primarily due to lower variable interest rates on borrowings. The increase in bank interest and charges on lines of credit of $3.5 million for the nine months ended September 30, 2020 compared to the respective 2019 period is primarily due to borrowings on the lines of credit increasing to $544.9 million as at September 30, 2020 compared to $265.4 million as at September 30, 2019 partially offset by the decrease noted above.

The decrease in exchangeable unit distributions of $2.9 million and $5.1 million, respectively, for the three and nine months ended September 30, 2020 compared to the respective 2019 periods is primarily due to H&R decreasing its monthly distributions from $0.115 per Unit to $0.0575 per Unit effective May 2020.

The increase in capitalized interest of $0.2 million and $3.4 million, respectively, for the three and nine months ended September 30, 2020 compared to the respective 2019 periods is primarily due to the increase in funding for the River Landing development. This was partially offset by a decrease in capitalized interest from the re-development of the former Target and Sears space.

The increase in finance income of $4.0 million and $17.2 million, respectively, for the three and nine months ended September 30, 2020 compared to the respective 2019 periods is primarily due to the REIT issuing several mortgage receivables including H&R providing a loan of U.S. $124.1 million in December 2019 secured against 12.4 acres of land in Jersey City, NJ, bearing interest at 10.0% per annum.

The fair value adjustment on financial instruments of $1.7 million and $127.1 million respectively, for the three and nine months ended September 30, 2020 is primarily due to the gain (loss) on fair value of exchangeable units of $1.3 million and $175.0 million, respectively, which are fair valued at the end of each reporting period based on the quoted price of Units on the TSX. The gain on fair value of exchangeable units of $175.0 million for the nine months ended September 30, 2020 is due to H&R's Unit price decreasing from $21.10 as at December 31, 2019 to $9.67 as at September 30, 2020.

Trust Expenses

	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2020**	2019	Change	**2020**	2019	Change
Other expenses	**($4,163)**	($4,146)	($17)	**($18,765)**	($13,495)	($5,270)
Unit-based compensation recovery (expense)	**(721)**	(4,277)	3,556	**14,408**	(22,170)	36,578
Trust Expenses	**($4,884)**	($8,423)	$3,539	**($4,357)**	($35,665)	$31,308

Other expenses increased by $5.3 million for the nine months ended September 30, 2020 compared to the respective 2019 period primarily due to costs incurred for abandoned transactions and an allowance for credit loss on mortgages receivable as a result of COVID-19 totalling $5.6 million.

Unit-based compensation consists of the following two compensation plans: the Unit Option Plan and the Incentive Unit Plan. Both plans are considered to be cash-settled under IFRS 2, *Share-based Payments* and as a result, are measured at each reporting period and settlement date at their fair value as defined by IFRS 2 based on the quoted price of Units on the TSX. The fair value adjustment to unit-based compensation was $0.7 million and ($2.8 million), respectively, for the three months ended September 30, 2020 and 2019, as well as $18.6 million and ($18.0 million), respectively, for the nine months ended September 30, 2020 and 2019. The fair value adjustment to unit-based compensation of $18.6 million for the nine months ended September 30, 2020 was due to H&R's Unit price decreasing from $21.10 as at December 31, 2019 to $9.67 as at September 30, 2020. The fair value adjustment to unit-based compensation of ($18.0 million) for the nine months ended September 30, 2019 was due to H&R's Unit price increasing from $20.65 as at December 31, 2018 to $23.13 as at September 30, 2019.

Fair Value Adjustment on Real Estate Assets

	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2020**	2019	Change	**2020**	2019	Change
Fair value adjustment on real estate assets	**$93,000**	($25,258)	$118,258	**($1,265,918)**	($60,214)	($1,205,704)

H&R records its real estate assets at fair value. Fair value adjustments on real estate assets are determined based on the movement of various parameters, including changes in capitalization rates, discount rates, terminal capitalization rates and future cash flow projections. The impact of COVID-19 has caused a change in assumptions used in determining the fair value of investment properties for the nine months ended September 30, 2020. Refer to page 5 of this MD&A for further discussion on IFRS fair value adjustments included in the Business Update.

Gain (Loss) on Sale of Real Estate Assets

	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2020**	2019	Change	**2020**	2019	Change
Gain (loss) on sale of real estate assets	**$20**	$1,800	($1,780)	**($2,167)**	$25,643	($27,810)

For a list of property dispositions, refer to page 12 of this MD&A.

The loss on sale of real estate assets for the nine months ended September 30, 2020 of $2.2 million is primarily due to the sale of two U.S. residential properties. The gain on sale of real estate assets for the nine months ended September 30, 2019 of $25.6 million is primarily due to the sale of The Atrium in Toronto, ON.

Income Tax (Expense) Recovery

	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2020**	2019	Change	**2020**	2019	Change
Income tax computed at the Canadian statutory rate of nil applicable to H&R for 2020 and 2019	**$ -**	$ -	$ -	**$ -**	$ -	$ -
Current U.S. income taxes	**185**	52	133	**(242)**	(149)	(93)
Deferred income taxes applicable to U.S. Holdco	**20,821**	(1,673)	22,494	**47,388**	(24,716)	72,104
Income tax (expense) recovery in the determination of net income (loss)	**$21,006**	($1,621)	$22,627	**$47,146**	($24,865)	$72,011

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 and a refund of previously paid alternative minimum tax.

H&R's deferred income tax is recorded in respect of U.S. Holdco and arose due to taxable temporary differences between the tax and accounting bases of assets and liabilities net of the benefit of unused tax credits and losses that are available to be carried forward to future tax years to the extent that it is probable that the unused tax credits and losses can be realized. Deferred income taxes decreased by $22.5 million and $72.1 million, respectively, for the three and nine months ended September 30, 2020 compared to the respective 2019 periods primarily due to fair value adjustments on real estate assets and certain income tax regulations released by the Internal Revenue Service in July 2020 resulting in the REIT recognizing a deferred tax recovery of $46.8 million during the nine months ended September 30, 2020.

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, 2020, H&R had net deferred tax liabilities of $372.1 million (December 31, 2019 - $409.4 million) primarily related to taxable temporary differences between the tax and accounting bases of U.S. real estate assets.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

The REIT presents its FFO and AFFO calculations in accordance with REALpac's February 2019 *White Paper on Funds From Operations and Adjusted Funds From Operations for IFRS.* FFO, AFFO and payout ratio as a % of FFO and AFFO are non-GAAP measures defined in the "Non-GAAP Financial 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)	**2020**	2019	**2020**	2019
Net income (loss) per the REIT's Financial Statements	**$247,849**	$69,301	**($736,203)**	$176,887
Realty taxes in accordance with IFRIC 21	**(11,147)**	(11,155)	**11,069**	11,173
FFO adjustments from equity accounted investments (page 28)	**(47)**	32,338	**9,567**	46,122
Exchangeable unit distributions	**2,592**	5,505	**11,399**	16,514
Fair value adjustments on financial instruments and real estate assets	**(94,721)**	30,018	**1,138,860**	122,304
Fair value adjustment to unit-based compensation	**(724)**	2,781	**(18,553)**	18,037
(Gain) loss on sale of real estate assets	**(20)**	(1,800)	**2,167**	(25,643)
Deferred income taxes applicable to U.S. Holdco	**(20,821)**	1,673	**(47,388)**	24,716
Incremental leasing costs	**1,561**	1,626	**4,780**	5,321
FFO	**$124,522**	$130,287	**$375,698**	$395,431
Straight-lining of contractual rent	**(2,524)**	(1,435)	**(6,355)**	(4,950)
Capital expenditures	**(10,896)**	(13,700)	**(38,501)**	(42,987)
Leasing expenses and tenant inducements	**(1,854)**	(6,817)	**(9,618)**	(26,808)
Incremental leasing costs	**(1,561)**	(1,626)	**(4,780)**	(5,321)
AFFO adjustments from equity accounted investments (page 28)	**(1,023)**	(2,740)	**(2,250)**	(5,810)
AFFO	**$106,664**	$103,969	**$314,194**	$309,555
Weighted average number of Units (in thousands of basic Units adjusted for conversion of exchangeable Units)[1]	**301,745**	301,573	**301,667**	301,458
Diluted weighted average number of Units (in thousands of Units) for the calculation of FFO and AFFO[1][2]	**302,220**	303,061	**302,143**	302,965
FFO per basic Unit (adjusted for conversion of exchangeable units)	**$0.413**	$0.432	**$1.245**	$1.312
FFO per diluted Unit	**$0.412**	$0.430	**$1.243**	$1.305
AFFO per basic Unit (adjusted for conversion of exchangeable units)	**$0.353**	$0.345	**$1.042**	$1.027
AFFO per diluted Unit	**$0.353**	$0.343	**$1.040**	$1.022
Distributions per Unit	**$0.173**	$0.345	**$0.748**	$1.035
Payout ratio as a % of FFO	**41.9%**	79.9%	**60.1%**	78.9%
Payout ratio as a % of AFFO	**49.0%**	100.0%	**71.8%**	100.8%

(1) For both the three and nine months ended September 30, 2020, included in the weighted average and diluted weighted average number of Units are exchangeable units of 14,883,065. For both the three and nine months ended September 30, 2019, included in the weighted average and diluted weighted average number of Units are exchangeable units of 15,522,367.

(2) For the three months ended September 30, 2020 and 2019, included in the determination of diluted FFO and AFFO with respect to H&R's Unit Option Plan and Incentive Unit Plan are 475,278 Units and 1,487,387 Units, respectively. For the nine months ended September 30, 2020 and 2019, included in the determination of diluted FFO and AFFO with respect to H&R's Unit Option Plan and Incentive Unit Plan are 475,278 Units and 1,507,688 Units, respectively.

FFO for the three and nine months ended September 30, 2020 compared to the respective 2019 periods decreased by $5.8 million and $19.7 million, respectively, primarily due to the provision for bad debts, costs incurred for abandoned transactions and an allowance for credit loss on mortgages receivable all a result of COVID-19. This was partially offset by higher finance income and lower finance costs – operations.

AFFO for the three and nine months ended September 30, 2020 compared to the respective 2019 periods increased by $2.7 million and $4.6 million, respectively, primarily due to lower capital and tenant expenditures, partially offset by the decrease in FFO noted above.

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

	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2020**	2019	Change	**2020**	2019	Change
Lease termination fees	**$840**	$1,397	($557)	**$4,334**	$7,624	($3,290)
Adjustments to straight-lining of contractual rent	**-**	(685)	685	**-**	(1,485)	1,485
Provision for bad debts	**(13,448)**	(432)	(13,016)	**(38,262)**	(1,257)	(37,005)
Costs incurred for abandoned transactions and an allowance for credit loss on mortgages receivable as a result of COVID-19	**(108)**	-	(108)	**(5,620)**	-	(5,620)
Mortgage prepayment penalties	**-**	-	-	**-**	(449)	449
	($12,716)	$280	($12,996)	**($39,548)**	$4,433	($43,981)

Excluding the above items, FFO would have been $137.2 million for the three months ended September 30, 2020 (Q3 2019 - $130.0 million) and $0.45 per basic Unit (Q3 2019 - $0.43 per basic Unit). For the nine months ended September 30, 2020, FFO would have been $415.2 million (Q3 2019 - $391.0 million) and $1.38 per basic Unit (Q3 2019 - $1.30 per basic Unit).

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

	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2020**	2019	Change	**2020**	2019	Change
Additional current year capital expenditure recoveries net of capital expenditures	**($454)**	($352)	($102)	**($181)**	($318)	$137
Lease termination fees	**840**	1,397	(557)	**4,334**	7,624	(3,290)
Provision for bad debts	**(13,448)**	(432)	(13,016)	**(38,262)**	(1,257)	(37,005)
Costs incurred for abandoned transactions and an allowance for credit loss on mortgages receivable as a result of COVID-19	**(108)**	-	(108)	**(5,620)**	-	(5,620)
Mortgage prepayment penalties	**-**	-	-	**-**	(449)	449
Capital expenditures	**(11,166)**	(15,644)	4,478	**(40,116)**	(46,178)	6,062
Leasing expenses and tenant inducements	**(2,066)**	(7,071)	5,005	**(10,154)**	(27,404)	17,250
	($26,402)	($22,102)	($4,300)	**($89,999)**	($67,982)	($22,017)

Excluding the above items, AFFO would have been $133.1 million for the three months ended September 30, 2020 (Q3 2019 - $126.1 million) and $0.44 per basic Unit (Q3 2019 - $0.42 per basic Unit). For the nine months ended September 30, 2020, AFFO would have been $404.2 million (Q3 2019 - $377.5 million) and $1.34 per basic Unit (Q3 2019 - $1.25 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)	**2020**	2019	Change	**2020**	2019	Change
Office:						
Capital expenditures	**$3,891**	$6,250	($2,359)	**$18,733**	$13,333	$5,400
Leasing expenditures and tenant inducements	**1,705**	3,955	(2,250)	**5,999**	17,210	(11,211)
Retail:						
Capital expenditures	**6,067**	6,088	(21)	**9,987**	22,609	(12,622)
Leasing expenditures and tenant inducements	**121**	2,293	(2,172)	**2,814**	7,971	(5,157)
Industrial:						
Capital expenditures	**254**	994	(740)	**2,034**	1,768	266
Leasing expenditures and tenant inducements	**240**	823	(583)	**1,341**	2,223	(882)
Residential:						
Capital expenditures	**954**	2,312	(1,358)	**9,362**	8,468	894
Leasing expenditures and tenant inducements	**-**	-	-	**-**	-	-
Total at the REIT's proportionate share	**13,232**	22,715	(9,483)	**50,270**	73,582	(23,312)
Less: equity accounted investments	**(482)**	(2,198)	1,716	**(2,151)**	(3,787)	1,636
Total per the REIT's Financial Statements[1]	**$12,750**	$20,517	($7,767)	**$48,119**	$69,795	($21,676)

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

The largest capital expenditures from the Office segment for the three and nine months ended September 30, 2020 included a generator upgrade at a Toronto, ON office property totalling $1.2 million and $7.2 million, respectively. The generator upgrade resulted in an 86% reduction in harmful emissions and also now meets the current "Tier 4" emissions standards for diesel generators as set by the United States Environmental Protection Agency. Included in capital expenditures from the Office segment for the nine months ended September 30, 2020 is a full roof replacement at a Calgary, AB office property totalling $1.8 million.

Tenant expenditures from the Office segment for the nine months ended September 30, 2019 included $7.7 million in tenant allowances paid as part of a lease renewal at two single tenant Calgary, AB office properties.

The largest capital expenditures from the Retail segment for the three and nine months ended September 30, 2020 included: (i) a food court renovation at a Guelph, ON retail property totaling $2.8 million and $4.9 million, respectively and (ii) a partial roof membrane replacement at a Toronto, ON retail property totaling $2.1 million. The largest capital expenditures from the Retail segment for the nine months ended September 30, 2019 included: (i) backfilling a former Safeway location with a new Marshalls store at a Winnipeg, MB retail property totalling $5.8 million; (ii) backfilling a former Future Shop location with a new Best Buy store at a Calgary, AB retail property totalling $5.1 million; and (iii) a food court relocation at a retail property in Orleans, ON totalling $3.8 million.

The largest capital expenditure from the Industrial segment for the three and nine months ended September 30, 2020 included roof replacement at a single tenanted industrial property in Oakville, ON totalling $0.2 million and $1.3 million, respectively.

The largest capital expenditures from the Residential segment for the nine months ended September 30, 2020 included: (i) smart-technology upgrades at five properties throughout Texas and North Carolina totalling $2.0 million and (ii) exterior painting at two Florida properties totalling $1.2 million. Smart-technology upgrades are expected to improve operational efficiency and have a positive environmental impact through utility savings for residents and the REIT.

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, 2020**	**Nine months ended September 30, 2020**	Year ended December 31, 2019	Year ended December 31, 2018
Cash provided by operations	**$129,493**	**$309,876**	$418,039	$462,123
Net income (loss)	**247,849**	**(736,203)**	340,289	337,918
Total distributions[1]	**49,459**	**214,088**	394,181	395,568
Excess cash provided by operations over total distributions	**80,034**	**95,788**	23,858	66,555
Excess (shortfall) of net income (loss) over total distributions	**198,390**	**(950,291)**	(53,892)	(57,650)

(1) Total distributions include cash distributions to unitholders and Unit distributions issued under the Dividend Reinvestment Plan ("DRIP"). In February 2018, the REIT announced the suspension of the DRIP until further notice, commencing with the March 2018 distribution.

Cash provided by operations exceeded total distributions for all periods noted above. Distributions exceeded net income (loss) for the nine months ended September 30, 2020 as well as the years ended December 31, 2019 and 2018 primarily due to non-cash items. Non-cash items relating to the fair value adjustments on financial instruments, real estate assets and unit-based compensation, gain (loss) on sale of real estate assets, gain (loss) on foreign exchange and deferred income tax expense are deducted from or added to net income (loss) and have no impact on cash available to pay current distributions. The net loss of $736.2 million for the nine months ended September 30, 2020 was primarily due to fair value adjustments which are further discussed on page 5 of this MD&A.

Unit distributions issued under the DRIP were nil for the three and nine months ended September 30, 2020 (December 31, 2019 – nil, December 31, 2018 - $16.6 million), which are non-cash distributions. Unit distributions issued under the DRIP previously resulted in an increase in the number of Units outstanding, however, the suspension of the DRIP commencing with the March 2018 distribution, resulted in an increased proportion of cash distributions.

Major Cash Flow Components

	Three months ended September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2020**	2019	Change	**2020**	2019	Change
Cash and cash equivalents, beginning of period	**$131,371**	$119,066	$12,305	**$48,640**	$53,073	($4,433)
Cash flows from operations	**129,493**	105,379	24,114	**309,876**	310,776	(900)
Cash flows from (used) investing	**(90,131)**	136,629	(226,760)	**57,662**	305,721	(248,059)
Cash flows used for financing	**(116,297)**	(287,593)	171,296	**(361,742)**	(596,089)	234,347
Cash and cash equivalents, end of period	**$54,436**	$73,481	($19,045)	**$54,436**	$73,481	($19,045)

Cash flows from operations increased by $24.1 million for the three months ended September 30, 2020 compared to the respective 2019 period, primarily due to an increase in non-cash working capital, lower finance costs – operations and higher finance income. This was partially offset by a higher provision for bad debts. Cash flows from operations decreased by $0.9 million for the nine months ended September 30, 2020 compared to the respective 2019 period, primarily due to the provision for bad debts and costs incurred for abandoned transactions both as a result of COVID-19. This was partially offset by an increase in non-cash working capital, lower finance costs – operations and higher finance income.

Cash flows from investing decreased by $226.8 million for the three months ended September 30, 2020 compared to the respective 2019 period primarily due to H&R receiving a cash distribution of U.S $194.8 million as part of the Jackson Park refinancing (equity accounted investment) in Q3 2019. Cash flows from investing decreased by $248.1 million for the nine months ended September 30, 2020 compared to the respective 2019 period primarily due to a decrease in net proceeds on the disposition of real estate assets and the Q3 2019 Jackson Park distribution noted above. This was partially offset by the repayment of a mortgage receivable in Q1 2020 and less cash spent on acquisitions and properties and under development.

Cash flows used for financing increased by $171.3 million for the three months ended September 30, 2020 compared to the respective 2019 period, primarily due to the repayment of the Series M Senior Debentures in Q3 2019 and lower Unit distributions. Cash flows used for financing increased by $234.3 million for the nine months ended September 30, 2020 compared to the respective 2019 period, primarily due to the issuance of the Series Q Senior Debentures and lower Unit distributions, partially offset by the repayment of debt.

Capital Resources

As at September 30, 2020, H&R had cash on hand of $54.4 million and amounts available under its lines of credit totalling $1.0 billion. Subject to market conditions, management expects to be able to meet all of the REIT's ongoing contractual obligations. In addition, the REIT has $78.3 million available under its secured construction facilities held through equity accounted investments as at September 30, 2020. As at September 30, 2020, the REIT is not in default or arrears on any of its obligations including interest or principal payments on debt and any debt covenant.

As at September 30, 2020, H&R had 94 unencumbered properties, with a fair value of approximately $3.5 billion. Also, due to H&R's 24-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, 2020, H&R had 36 properties valued at approximately $1.4 billion which are encumbered with mortgages totalling $191.4 million. In this pool of assets, the average loan to value is 13.2%, the minimum loan to value is 2.1% and the maximum loan to value is 27.9%. The weighted average remaining term to maturity of this pool of mortgages is 1.6 years.

The following is a summary of material contractual obligations including payments due as at September 30, 2020 for the next five years and thereafter:

	Payments Due by Period				
Contractual Obligations[1] (in thousands of Canadian dollars)	2020[2]	2021-2022	2023-2024	2025 and thereafter	Total
Mortgages payable	$71,765	$1,554,142	$518,382	$1,587,449	$3,731,738
Senior debentures	-	325,000	600,000	400,000	1,325,000
Unsecured term loans	-	196,429	250,000	250,000	696,429
Lines of credit[3]	51,500	377,725	115,710	-	544,935
Lease liability[4]	293	2,354	2,449	186,533	191,629
Property acquisitions	13,500	-	-	-	13,500
Total contractual obligations	$137,058	$2,455,650	$1,486,541	$2,423,982	$6,503,231

(1) The amounts in the above table are the principal amounts due under the contractual agreements.
(2) For the balance of the year.
(3) In October 2020, the revolving secured line of credit agreement with a balance outstanding of $51.5 million as at September 30, 2020 was amended to extend the maturity date to April 30, 2021.
(4) Corresponds to a right-of-use asset in a leasehold interest.

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

DBRS has confirmed that H&R has a credit rating of BBB (high) with a Stable trend as at September 30, 2020. This is a rating achieved by only four Canadian REITs (including H&R) as at September 30, 2020. A credit rating of BBB (high) by DBRS is generally an indication of adequate credit quality, where the capacity for payment of financial obligations is considered acceptable, however the entity may be vulnerable to future events. A credit rating of BBB or higher is an investment grade rating. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be withdrawn or revised by DBRS at any time. The credit rating is reviewed periodically by DBRS.

Funding of Future Commitments

As at September 30, 2020, H&R had cash on hand of $54.4 million, cash available under its lines of credit of $1.0 billion and an unencumbered property pool of approximately $3.5 billion.

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

Year	Number of Properties	Mortgage Debt due on Maturity ($000's)	Weighted Average Interest Rate on Maturity	Fair Value Investment Properties ($000's)	Loan to Value
2020[1]	3	$39,019	5.3%	$78,012	50%
2021	11	833,015	3.9%	2,159,003	39%
2022	40	543,478	3.9%	1,468,544	37%
2023	10	395,434	3.9%	573,712	69%
2024	5	5,913	3.9%	383,633	2%
2025	10	108,999	3.9%	236,298	46%
	79	$1,925,858	3.9%	$4,899,202	39%

[1] For the balance of the year.

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, 2020, H&R has outstanding letters of credit totaling $33.0 million (December 31, 2019 - $36.9 million), including $12.6 million (December 31, 2019 - $16.6 million) which has been pledged as security for certain mortgages payable. The letters of credit are secured by certain investment properties.

H&R has co-owners and partners in various projects. As a rule, H&R does not provide guarantees or indemnities for these co-owners and partners pursuant to property acquisitions because should such guarantees be provided, recourse would be available against H&R in the event of a default of the co-owners and partners. In such case, H&R would have a claim against the underlying real estate investment. However, in certain circumstances, subject to compliance with H&R's Declaration of Trust and the determination by management that the fair value of the co-owners' or partners' investment is greater than the mortgages payable for which H&R has provided guarantees, such guarantees will be provided. As at September 30, 2020, such guarantees amounted to $274.5 million expiring between 2021 and 2027 (December 31, 2019 - $199.0 million, expiring between 2021 and 2027), and no amount has been provided for in the REIT's Financial Statements for these items. These amounts arise where H&R has guaranteed a co-owner's share of the mortgage liability. H&R, however, customarily guarantees or indemnifies the obligations of its nominee companies which hold separate title to each of its properties owned.

H&R had previously guaranteed certain debt assumed by purchasers in connection with past dispositions of properties. As at September 30, 2020, the estimated amount of debt subject to such guarantees, and therefore the maximum exposure to credit risk is nil (December 31, 2019 - $41.3 million, expiring in 2020). There had been no defaults by the primary obligors for debts on which H&R had provided its guarantees, and as a result, no contingent loss on these guarantees had been recognized in the REIT's Financial Statements.

DERIVATIVE INSTRUMENTS

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

Where appropriate, H&R uses forward exchange contracts to lock-in foreign exchange rates. There were no forward exchange contracts outstanding as at September 30, 2020. This strategy manages risks related to foreign exchange rates on transactions that will occur in the future.

During 2019 and 2020, H&R had the following interest rate swaps outstanding:

		Fair value asset (liability)*		Net gain (loss) on derivative instruments		Net gain (loss) on derivative instruments	
		September 30	December 31	Three months ended September 30		Nine months ended September 30	
(in thousands of Canadian dollars)		**2020**	2019	**2020**	2019	**2020**	2019
Debenture interest rate swap	(1)	**$ -**	$ -	**$ -**	$ -	**$ -**	($592)
Debenture interest rate swap	(2)	**-**	(404)	**-**	184	**404**	(333)
Term loan interest rate swap	(3)	**(968)**	752	**470**	(476)	**(1,720)**	(3,949)
Term loan interest rate swap	(4)	**(19,763)**	(2,777)	**802**	36	**(16,986)**	(8,337)
Term loan interest rate swap	(5)	**(22,499)**	(6,171)	**825**	123	**(16,328)**	(9,309)
		($43,230)	($8,600)	**$2,097**	($133)	**($34,630)**	($22,520)

(1) To fix the interest rate at 2.36% per annum for the Series K senior debentures (settled when these debentures matured on March 1, 2019).
(2) To fix the interest rate at 3.67% per annum for the Series P senior debentures (settled when these debentures matured on February 13, 2020).
(3) To fix the interest rate at 2.56% per annum on U.S. $130.0 million term loan. The swap matures on March 17, 2021.
(4) To fix the interest rate at 3.33% per annum on $250.0 million term loan. The swap matures on March 7, 2026.
(5) To fix the interest rate at 3.91% per annum on $250.0 million term loan. The swap matures on January 6, 2026.

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

SECTION IV

SELECTED FINANCIAL INFORMATION

Summary of Quarterly Results

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

(in thousands of Canadian dollars)	**Q3 2020**	Q2 2020	Q1 2020	Q4 2019
Rentals from investment properties	**$271,612**	$269,882	$279,677	$282,221
Net income from equity accounted investments	**9,195**	7,639	10,877	36,958
Net income (loss)	**247,849**	35,769	(1,019,821)	163,402
Total comprehensive income (loss)	**177,239**	(70,177)	(783,620)	119,484

	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Rentals from investment properties	$281,571	$286,972	$298,686	$297,416
Net income (loss) from equity accounted investments	(18,414)	3,556	9,101	148,165
Net income (loss)	69,301	109,583	(1,997)	61,115
Total comprehensive income (loss)	89,458	67,813	(61,792)	200,450

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

Net income (loss) increased by $212.1 million in Q3 2020 compared to Q2 2020 primarily due to fair value adjustments on real estate assets and financial instruments, a higher deferred income tax recovery as well as a lower provision for bad debts.

Total comprehensive income (loss) increased by $247.4 million in Q3 2020 compared to Q2 2020 primarily due to the increase in net income (loss) noted above and a foreign currency loss from investment in foreign operations of $70.6 million in Q3 2020 compared to a loss of $105.9 million in Q2 2020.

PORTFOLIO OVERVIEW

The geographic diversification of the portfolio of properties in which the REIT has an interest and the related square footage is disclosed at the REIT's proportionate share as at September 30, 2020 in the tables below:

Number of Properties[1]	Canada					
	Ontario	Alberta	Other	Subtotal	United States	Total
Office	19	4	4	27	6	33
Retail[2]	36	17	14	67	258	325
Industrial	36	19	28	83	3	86
Residential[3]	-	-	-	-	22	22
Total	91	40	46	177	289	466

Square Feet (in thousands)[1]	Canada					
	Ontario	Alberta	Other	Subtotal	United States	Total
Office	5,367	2,607	893	8,867	1,944	10,811
Retail[2]	3,456	3,954	2,720	10,130	3,053	13,183
Industrial	4,555	2,030	1,648	8,233	700	8,933
Residential[3]	-	-	-	-	7,153	7,153
Total	13,378	8,591	5,261	27,230	12,850	40,080

(1) H&R has 12 properties under development which are not included in the tables above.
(2) Retail, which includes ECHO's equity accounted investment, has 10 properties under development which are not included in the tables above.
(3) The residential properties contain 7,777 residential rental units.

LEASE MATURITY PROFILE

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

Canadian Portfolio:

	Office		Retail		Industrial		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. ($) on expiry	Sq.ft.	Rent per sq.ft. ($) on expiry
2020[1]	3,236	34.52	358,968	24.35	9,936	8.60	372,140	24.02
2021	204,438	22.72	832,399	23.70	262,592	5.99	1,299,429	19.97
2022	240,237	21.96	856,430	22.01	1,165,704	6.84	2,262,371	14.19
2023	104,615	31.39	495,870	34.24	387,312	6.62	987,797	23.11
2024	586,197	12.00	894,608	23.68	751,129	7.70	2,231,934	15.23
2025	422,077	20.59	535,913	32.10	683,639	6.09	1,641,629	18.31
	1,560,800	18.61	3,974,188	25.84	3,260,312	6.79	8,795,300	17.49
Total % of each segment	17.6%		39.2%		39.6%		32.3%	

(1) For the balance of the year.

U.S. Portfolio[1]:

	Office		Retail		Industrial		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. ($) on expiry	Sq.ft.	Rent per sq.ft. ($) on expiry
2020[2]	-	-	48,491	41.75	-	-	48,491	41.75
2021	-	-	152,314	18.98	-	-	152,314	18.98
2022	563	61.33	223,623	24.26	-	-	224,186	24.35
2023	85,725	5.86	188,272	24.44	412,585	3.00	686,582	9.24
2024	172,039	24.93	165,613	16.04	123,090	3.75	460,742	16.08
2025	92,694	15.23	195,080	19.88	-	-	287,774	18.38
	351,021	17.77	973,393	22.06	535,675	3.17	1,860,089	15.81
Total % of each segment	18.1%		31.9%		76.5%		32.7%	

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

TOP TWENTY SOURCES OF REVENUE BY TENANT

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

	Tenant	% of Rentals from Investment Properties[1]	Number of Locations	H&R owned sq.ft. (in 000's)	Average Lease Term to Maturity (in years)[2]	Credit Ratings (S&P)
1.	Ovintiv Inc. (formerly Encana Corporation)[3]	12.0%	1	1,997	17.6	BBB- Negative
2.	Bell Canada	8.5%	23	2,536	13.9	BBB+ Stable
3.	Hess Corporation	5.8%	1	845	[10]	BBB- Negative
4.	New York City Department of Health	4.0%	1	660	10.1	AA Stable
5.	Giant Eagle, Inc.	3.6%	201	1,636	10.9	Not Rated
6.	Canadian Tire Corporation[4]	3.0%	19	2,681	6.3	BBB Negative
7.	TC Energy Corporation	2.0%	1	466	10.6	BBB+ Stable
8.	Corus Entertainment Inc.	1.9%	1	472	12.5	BB Negative
9.	Lowe's Companies, Inc.[5]	1.6%	13	1,346	12.3	BBB+ Stable
10.	Telus Communications	1.2%	17	356	5.4	BBB+ Negative
11.	Shell Oil Products	1.1%	14	182	2.4	AA- Negative
12.	Toronto-Dominion Bank	1.1%	7	286	6.8	AA- Stable
13.	Public Works and Government Services, Canada	1.0%	5	321	4.6	AAA Stable
14.	Loblaw Companies Limited[6]	1.0%	19	273	8.6	BBB Stable
15.	Royal Bank of Canada	1.0%	5	247	4.6	AA- Stable
16.	Empire Company Limited[7]	0.9%	14	492	10.4	BBB- Stable
17.	The TJX Companies Inc.[8]	0.9%	17	625	5.2	A Negative
18.	Walmart Inc.[9]	0.7%	9	751	5.9	AA Stable
19.	Metro Inc.	0.7%	12	420	6.0	BBB Stable
20.	Canadian Imperial Bank of Commerce	0.7%	9	191	4.6	A+ Stable
	Total	**52.7%**	**389**	**16,783**		

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

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

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

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

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

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

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

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

(9) Walmart Inc. includes Sam's Club.

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

SECTION V

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 the December 31, 2019 annual MD&A and in the "Risks Factors" section of H&R's 2019 Annual Information Form, each of which were filed with the securities regulatory authorities in Canada and are available at www.sedar.com. In addition, the REIT has identified a new risk factor related to the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", which is further discussed below.

Risks Associated with COVID-19

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic, which has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus, including travel bans, quarantine periods, social distancing and significant monetary and fiscal interventions. Given the success in mitigating the initial spread of COVID-19, the governments in Canada and in many other countries eased the containment measures in late Q2 2020 and rolled out reopening of non-essential businesses on a staged regional approach for most of Q3 2020. This led to a recovery of economic activities and the employment rate in Canada and in many parts of the world. Following Q3 2020, the rise in the number of COVD-19 cases globally have sparked concern of a second wave of the pandemic. Some regional and provincial governments in Canada started introducing or restoring restrictive measures for certain businesses such as theatres, gyms and sit-down restaurants. Even though such restrictions are more targeted and more limited as governments attempt to avoid another full scale shut down of the economy, they nonetheless impose additional risks and uncertainties to the REIT's business, operations and financial performance as discussed throughout the MD&A.

The duration and impact of the COVID-19 pandemic on H&R continues to remain unknown at this time, as is the efficacy of the government's interventions. However, disruptions caused by COVID-19 have negatively impacted the market price for the equity securities of the REIT and may, in the short or long term, materially adversely impact the REIT's tenants and/or the debt and equity markets, both of which could materially adversely affect the REIT's operations and financial performance and ability to pay distributions. The REIT has experienced and continues to expect COVID-19 related delays with its current and future development projects. The REIT expects near-term delay to ongoing projects in terms of construction spending and expected completion dates, as well as delays to the commencement of construction for new development projects.

The extent of the effect of COVID-19 on the REIT's operational and financial performance will depend on numerous factors, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering that the situation continues to evolve rapidly. As a result, it is not currently possible to ascertain the long term impact of COVID-19 on the REIT's business and operations. Certain aspects of the REIT's business and operations that could potentially be impacted include rental income, occupancy, tenant inducements, future demand for space and market rents, as well as increased costs resulting from the REIT's efforts to mitigate the impact of COVID-19, longer-term stoppage of development projects, temporary or long-term labour shortages or disruptions, temporary or long-term impacts on domestic and global supply chains, increased risks to IT systems and networks, further impairments and/or write-downs of assets, and the deterioration of worldwide credit and financial markets that could limit the REIT's ability to access capital and financing on acceptable terms or at all.

Even after the COVID-19 pandemic has subsided, the REIT may continue to experience material adverse impacts to its business as a result of the global economy, including any related recession, as well as lingering affects on the REIT's employees, suppliers, third-party service providers and/or tenants.

Management continues to actively assess and respond where possible, to the effects of the COVID-19 pandemic on the REIT's employees, tenants, suppliers, and service providers, and evaluating governmental actions being taken to curtail its spread. The REIT is continuing to review its future cash flow projections and the valuation of its properties in light of the COVID-19 pandemic, and intends to follow health and safety guidelines as they continue to evolve.

OUTSTANDING UNIT DATA

The beneficial interests in the REIT are represented by two classes of Units: Units which are unlimited in number; and special voting units of which a maximum of 9,500,000 may be issued. Each Unit carries a single vote at any meeting of unitholders of the REIT. Each special voting unit carries a single vote at any meeting of unitholders of the REIT. As at November 5, 2020, there were 286,863,083 Units issued and outstanding and 9,500,000 special voting units outstanding.

As at September 30, 2020, the maximum number of options to purchase Units authorized to be issued under H&R's Unit Option Plan was 17,723,110. Of this amount, 10,543,362 options to purchase Units have been granted and are outstanding and 7,179,748 options have not yet been granted. As at November 5, 2020, there were 10,543,362 options to purchase Units outstanding and fully vested.

As at September 30, 2020, 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 1,063,697 incentive units which remain outstanding, 184,299 have been settled for Units and 3,752,004 incentive units have not yet been granted. As at November 5, 2020, there were 1,089,020 incentive units outstanding.

As at September 30, 2020 there were 14,883,065 exchangeable units outstanding of which 9,500,000 exchangeable units are accompanied by special voting units. As at November 5, 2020 there were 14,883,065 exchangeable units outstanding of which 9,500,000 exchangeable units are accompanied by special voting units.

ADDITIONAL INFORMATION

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

SUBSEQUENT EVENTS

(a) In November 2020, the REIT acquired a 50% ownership interest in 24.6 acres of industrial land in Mississauga, ON for a purchase price of approximately $18.5 million at the REIT's interest. The REIT's joint venture partner has contributed land valued at approximately $37.0 million and the REIT has contributed cash of $2.0 million. The REIT has a further cash commitment of $35.0 million as funds are required for development. There are no immediate plans for construction.

(b) In November 2020, the REIT entered into a lease extension and amending agreement with Hess Corporation ("Hess") for its premises in Houston, TX, under which Hess has agreed to extend the term of its lease on two thirds of the building for an additional term of 10 years beyond its current expiry of June 30, 2026.

Corporate Information

H&R REIT Board of Trustees

Thomas J. Hofstedter [1], President and Chief Executive Officer, H&R REIT
Alex Avery [1], Executive Vice-President, Asset Management & Strategic Initiatives, H&R REIT
Robert Dickson [2,3], Strategic financial consultant, marketing communications industry
Laurence A. Lebovic [1], Chief Executive Officer, Runnymede Development Corporation Ltd.
Ronald C. Rutman [1,2,3], Partner, Zeifman & Company, Chartered Accountants
Juli Morrow, Partner, Goodmans LLP
Brenna Haysom [3], Chief Executive Officer, Rally Labs
Marvin Rubner [2], Manager & Founder, YAD Investments Limited

(1) Investment Committee
(2) Audit Committee
(3) Compensation, Governance and Nominating Committee

Executive Officers

Thomas J. Hofstedter, President and Chief Executive Officer
Larry Froom, Chief Financial Officer
Alex Avery, Executive Vice-President, Asset Management & Strategic Initiatives
Robyn Kestenberg, Executive Vice-President, Corporate Development
Philippe Lapointe, Chief Operating Officer (Lantower Residential)
Pat Sullivan, Chief Operating Officer (Primaris)
Cheryl Fried, Executive Vice-President, Finance (H&R REIT)
Brenda Huggins, Senior Vice-President, Human Resources (Primaris)
Colleen Grahn, Executive Vice-President, Property Management (Lantower Residential)

Auditors: KPMG LLP

Legal Counsel: Blake, Cassels & Graydon LLP

Taxability of Distributions:
22.3% of 2019 distributions were designated as taxable capital gains. As such, 22.3% of 2019 distribution were not subject to current income taxes for taxable Canadian unitholders.

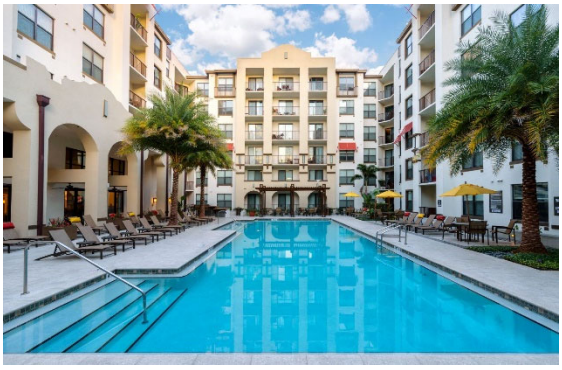
Plan Eligibility: RRSP, RRIF, DPSP, RESP, RDSP, TFSA

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

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

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

H&R Real Estate Investment Trust



Modera Westshore, Tampa

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www.HR-REIT.com