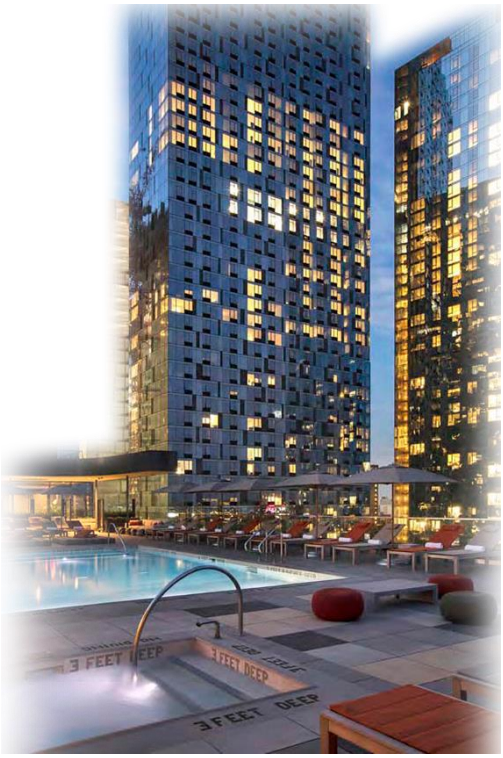
H&R Real Estate Investment Trust
Q1 2021 Quarterly Report to Unitholders
For the Three Months Ended March 31, 2021

The Bow, Calgary



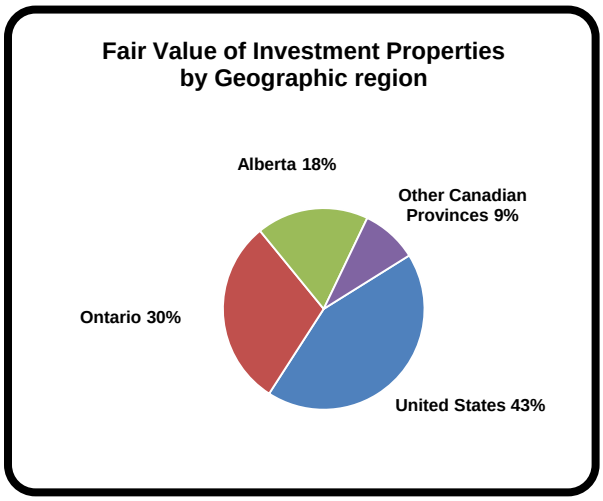
Jackson Park, New York

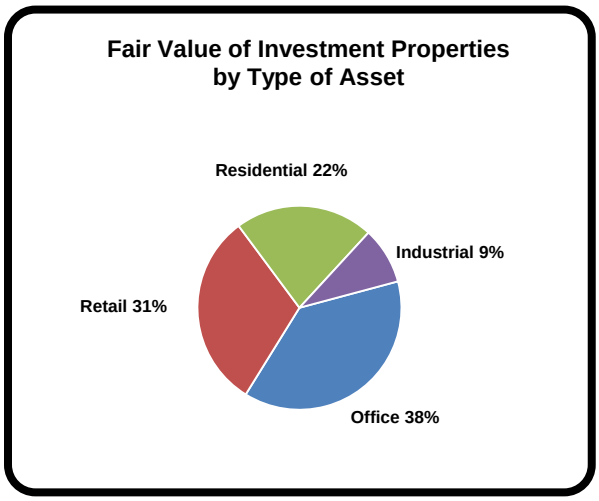
Airport Road, Brampton – Sleep Country

H&R Profile

H&R REIT is one of Canada's largest real estate investment trusts with total assets of approximately $13.2 billion at March 31, 2021. 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 - FIRST QUARTER 2021

BUSINESS UPDATE

H&R is pleased to report stable and consistent Q1 2021 financial and operating results reflecting the quality of the REIT's portfolio and the strength of the REIT's balance sheet. While the extraordinary events that followed the arrival of the COVID-19 pandemic a year ago have required significant management attention to ensure the safety and security of the REIT's employees, tenants, properties and financial condition, management has continued to invest considerable time and effort into the REIT's objectives of improving the quality and value of the REIT's portfolio and improving the profile of an investment in H&R units.

President & CEO Tom Hofstedter commented "As we emerge from the past year's challenging environment, we are pleased with both the REIT's financial and operating results and the progress we continue to make in advancing strategic initiatives. In the past year we have completed substantial dispositions and acquisitions, completed successful developments and advanced future development projects which will commence in 2021 and 2022, and expect to complete further property dispositions in the remainder of 2021. These activities have laid the foundation for more significant strategic changes, which we hope to provide more details of in coming months."

FINANCIAL HIGHLIGHTS

	3 months ended March 31	
	2021	2020
Rentals from investment properties (millions)	**$266.5**	$279.7
Property operating income (millions)	**$133.7**	$140.6
Fair value adjustment on real estate assets (millions)	**$64.7**	($1,301.2)
Net income (loss) (millions)	**$159.5**	($1,019.8)
Funds from operations ("FFO") (millions)[1]	**$119.7**	$136.1
FFO per Unit (basic)[1]	**$0.40**	$0.45
Adjusted Funds from Operations ("AFFO") (millions)[1]	**$97.1**	$120.1
AFFO per Unit (basic)[1]	**$0.32**	$0.40
Distributions per Unit	**$0.17**	$0.35
Payout ratio per Unit (as a % of FFO)[1]	**43.5%**	76.5%
Net Asset Value ("NAV") per Unit as at March 31[1]	**$22.24**	$22.26

(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 months ended March 31, 2021 includes a reconciliation of 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.

Property operating income decreased by $7.0 million for the three months ended March 31, 2021 compared to the respective 2020 period primarily due to the Retail segment, which decreased by $6.6 million due to factors relating to the COVID-19 pandemic, including: (i) tenant closures mainly affecting enclosed shopping centres; (ii) temporary lease amendments reducing rental rates in order to retain tenants who have faced challenging conditions; and (iii) lower percentage rent and specialty leasing earned due to government mandated closures primarily affecting enclosed shopping centres. In addition, four single-tenant retail properties in the United States were vacated in June 2020, and to date only a portion of the space has been re-leased at lower rental rates.

Net income (loss) before income taxes increased by approximately $1.2 billion for the three months ended March 31, 2021 compared to the respective 2020 period primarily due to fair value adjustments of real estate assets. This is primarily due to negative fair value adjustments taken in Q1 2020 during the onset of COVID-19 as a result of challenging conditions in the retail landscape and energy sector volatility affecting office property market fundamentals. This was partially offset by fair value adjustments on financial instruments.

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 May 7, 2021, H&R's rent collections are as follows:

Tenant Type[1]	Share of Rent[2]	Q4 2020 Collection[2]	Q1 2021 Collection[2]	April 2021 Collection[2]
Office	44%	100%	99%	99%
Retail:				
Enclosed	*20%*	*87%*	*89%*	*81%*
Other	*14%*	*96%*	*96%*	*94%*
Total Retail	*34%*	*90%*	*92%*	*86%*
Residential	16%	97%	96%	96%
Industrial	6%	100%	100%	100%
Total	**100%**	**96%**	**96%**	**94%**

(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 includes monthly billings for base rent and property operating costs.

H&R's high-quality, long-term leased office portfolio delivered strong rent collection consistent with the profile of the tenant base, with 85.8% of revenues coming from investment-grade rated tenants. Rent collection was also stable 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 has recorded a bad debt expense for the three months ended March 31, 2021 of $1.0 million compared to $3.2 million for Q4 2020 and $0.3 million for the three months ended March 31, 2020.

Liquidity

As at March 31, 2021, H&R had ample liquidity including cash on hand of $54.5 million, $1.4 billion available under its unused lines of credit and an unencumbered property pool of approximately $3.9 billion.

SUMMARY OF SIGNIFICANT Q1 2021 ACTIVITY

Developments

H&R's active development pipeline in the United States currently comprises five residential developments with a total development budget of U.S. $241.6 million. As at March 31, 2021, U.S. $214.9 million had been spent on properties under development with U.S. $26.7 million of budgeted costs remaining to be spent. The REIT has U.S. $30.6 million available to be funded through secured construction facilities, in each case at the REIT's proportionate share.

The REIT's 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 339,000 square feet of retail space, approximately 125,000 square feet of office space and 528 residential rental units.

In Q4 2020, the retail and office portion of this project known as "River Landing Commercial", reached substantial completion and was transferred from properties under development to investment properties. Retail occupancy was 74.6% as at March 31, 2021, which includes the following major tenants: Publix Super Markets Inc., Hobby Lobby, Burlington, Ross Stores Inc., T.J. Maxx, Old Navy and Planet Fitness. Committed occupancy for retail space as at March 31, 2021 was 81.7% with the remaining retail lease-up expected to occur during 2021. The REIT is continuing negotiations with multiple parties on the office space.

In Q1 2021, the first of two residential towers at River Landing reached substantial completion and was transferred from properties under development to investment properties. As at March 31, 2021, 228 residential leases in the first

tower had been entered into and occupancy was 62.9%, exceeding management's expectations on leasing velocity. The second residential tower, with the remaining 218 of 528 total residential rental units, is expected to be transferred from properties under development to investment properties in Q2 2021. The total cost of the project is expected to be completed on budget at approximately U.S. $495.9 million of which U.S. $294.3 million was allocated to River Landing Commercial and the remaining U.S. $201.6 million has been allocated to the residential towers. As at March 31, 2021, U.S. $412.7 million has been included in investment properties and U.S. $80.6 million has been included in properties under development.

In January 2021, H&R acquired 12.4 acres of vacant land in Jersey City, NJ for U.S. $162.0 million and H&R received approximately U.S. $146.2 million for the repayment of the outstanding mortgage receivable secured by this land which bore interest at 10% per annum.

In January 2021, H&R acquired 4.2 acres of land in Dallas, TX for U.S. $9.1 million, which is expected to be developed into 352 residential rental units. The site is located adjacent to US Hwy 75 with proximity to downtown Dallas and other major thoroughfares including I-635 and the Dallas North Tollway.

Subsequent to March 31, 2021, H&R completed a 10-year lease with an industrial tenant to occupy 105,133 square feet at 34 Speirs Giffen Ave., Caledon, ON, a single-tenant property currently under development. The total development budget is $16.3 million and the expected yield on budgeted cost is approximately 7.0%. Occupancy is expected to commence in Q2 2022. This will be the second property constructed at H&R's industrial business park in Caledon which consists of approximately 144 acres.

Properties in Lease-up

H&R currently has three properties in lease-up: River Landing, Phase 1 of the Hercules Project and Jackson Park.

As noted above, River Landing Commercial was transferred from properties under development to investment properties in Q4 2020 and in Q1 2021, the first of two residential towers at River Landing reached substantial completion and was transferred from properties under development to investment properties. Property operating income (cash basis) (a non-GAAP measure - see "Non-GAAP Financial Measures" in this press release) from River Landing for the three months ended March 31, 2021 was approximately U.S. $0.6 million. The pro forma unlevered yield on cost is expected to be approximately 5.0% based on a total budget of U.S. $495.9 million. As at March 31 2021, U.S. $412.7 million has been included in investment properties and U.S. $80.6 million has been included in properties under development.

Phase 1 of the Hercules Project in Hercules, CA reached substantial completion in Q4 2020 and was transferred from properties under development to investment properties. Property operating income (cash basis) for the three months ended March 31, 2021 was approximately U.S. $0.3 million at H&R's ownership interest. The pro forma unlevered yield on cost is expected to be approximately 5.4% based on a total budget of U.S. $25.7 million, at H&R's ownership interest.

Jackson Park in Long Island City, NY has been negatively impacted by COVID-19 with higher vacancy and lower than average lease renewals. Property operating income (cash basis) for the three months ended March 31, 2021 was approximately U.S. $3.0 million at H&R's ownership interest. Prior to the onset of COVID-19, property operating income (cash basis) for Jackson Park for the three months ended March 31, 2020 was approximately U.S. $8.0 million, at H&R's ownership interest.

Office

In January 2021, H&R sold a 172,039 square foot single-tenanted property in Culver City, CA for approximately U.S. $165.0 million. Upon closing, the REIT repaid the two associated mortgages totalling U.S. $13.0 million, bearing interest at a weighted average rate of 5.7%. The REIT acquired this property in May 2004 for U.S. $60.3 million. This property was classified as held for sale as at December 31, 2020.

Same-Asset property operating income (cash basis) (a non-GAAP measure - see "Non-GAAP Financial Measures" in this press release) from office properties decreased by 10.0% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to Hess Corporation ("Hess") receiving a seven-month free rent period (commencing December 2020) as part of a lease extension and amending agreement completed in November 2020 for its premises in Houston, TX, the ("Hess Lease Amendment") under which Hess agreed to extend the term of its lease on approximately two-thirds of the building for an additional term of 10 years beyond its current expiry of June 30, 2026. Excluding the impact of Hess Lease Amendment, Same-Asset property operating income (cash basis) increased by 2.0%.

Industrial

In March 2021, H&R sold a 50% ownership interest in a 39,294 square foot multi-tenanted property in Richmond Hill, ON for approximately $9.6 million. This property was previously classified as held for sale as at December 31, 2020.

Same-Asset property operating income (cash basis) from industrial properties decreased by 2.3% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to the decrease in Same-Asset occupancy from 98.9% as at March 31, 2020 to 96.6% as at March 31, 2021.

Residential

Same-Asset property operating income (cash basis) from residential properties in U.S. dollars decreased by 18.6% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to Jackson Park in New York which has been negatively impacted by COVID-19 with higher vacancy and lower than average lease renewals. H&R believes this decline is temporary and expects operating fundamentals to improve in the second half of 2021. Further to this expectation, property operating income (cash basis) for Jackson Park increased by 7.7% from Q4 2020 to Q1 2021. 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 March 31, 2021 compared to the respective 2020 period, primarily due to an increase in revenue and the stabilization of various assets in the portfolio.

Retail

Same-Asset property operating income (cash basis) from retail properties decreased by approximately $8.3 million or 13.4% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to factors relating to the COVID-19 pandemic, including: (i) tenant closures; (ii) temporary lease amendments reducing rental rates in order to retain tenants who have faced challenging conditions; and (iii) lower percentage rent and specialty leasing earned due to government mandated closures.

Of the $8.3 million decline, enclosed shopping centres accounted for $6.6 million. Temporary rent reductions accounted for 34% of this decline, 28% related to rent reductions that remain in place until lease maturity, 11% related to lower percentage rents, specialty leasing and miscellaneous revenues (including a greater number of leases with percentage rent clauses, but lower tenant sales due to centre closures), and the remaining 27% was due to the impact of vacancies net of replacement leasing, much of which has yet to commence.

The remainder of the decline is split evenly between ECHO and the REIT's other retail properties. Notably, four single-tenant retail properties in the United States were vacated in June 2020, and to date only a portion of the space has been re-leased.

Funds from Operations and Adjusted Funds from Operations

FFO per Unit in Q1 2021 was $0.40 compared to $0.42 in Q4 2020 and $0.45 in Q1 2020. AFFO per Unit was $0.32 in Q1 2021 compared to $0.22 in Q4 2020 and $0.40 in Q1 2020. Distributions paid as a percentage of AFFO was 53.6% in Q1 2021, resulting in significant retained cash flow.

Debt Highlights

As at March 31, 2021, debt to total assets was 46.7% compared to 47.7% as at December 31, 2020. The weighted average interest rate of H&R's debt as at March 31, 2021 was 3.6% with an average term to maturity of 3.6 years.

Mortgages:
As at March 31, 2021, H&R had $818.2 million in mortgage principal maturing during the remainder of 2021. Of this amount, H&R completed renewals for $237.5 million subsequent to March 31, 2021, $250.0 million is expected to be repaid from H&R's unused lines of credit and $0.9 million relates to final payments for mortgages fully amortized upon maturity.

Debentures:
In February 2021, H&R issued $300.0 million principal amount of 2.633% Series S Senior Debentures maturing February 19, 2027. The proceeds were used to repay the term loan noted below as well as lines of credit.

Unsecured Term Loans:
In March 2021, the REIT repaid its $200.0 million unsecured term loan. The REIT had 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, which settled in March 2021.

Lines of Credit:
In April 2020, at the onset of COVID-19, H&R bolstered its liquidity by securing a $500.0 million unsecured line of credit for a one-year term. With the vaccine rollout expanding throughout Canada and the United States and the Canadian economy slowly reopening, H&R believes it has sufficient liquidity to withstand the remainder of the pandemic and has therefore opted to reduce the amount of this facility. Therefore, in April 2021, the REIT secured a one-year extension on the unsecured line of credit from a syndicate of five Canadian banks for $300.0 million. The maturity date was extended to April 17, 2022.

In April 2021, the REIT secured a one-year extension on the H&R and CrestPSP revolving secured line of credit for $62.5 million at H&R's ownership interest. The maturity date was extended to April 30, 2022.

Tom Hofstedter
President and Chief Executive Officer
May 13, 2021

Unaudited condensed consolidated interim financial statements of

H&R REAL ESTATE INVESTMENT TRUST

For the three months ended March 31, 2021 and 2020

H&R REAL ESTATE INVESTMENT TRUST

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

	Note	**March 31 2021**	December 31 2020
		(Unaudited)	
Assets			
Real estate assets:			
Investment properties	*3*	**$ 11,324,408**	$ 11,149,130
Properties under development	*3*	**536,507**	449,849
		11,860,915	11,598,979
Equity accounted investments	*4*	**933,643**	955,468
Assets classified as held for sale	*5*	**-**	219,050
Other assets	*6*	**332,121**	519,088
Cash and cash equivalents	*7*	**54,520**	62,859
		$ 13,181,199	$ 13,355,444
Liabilities and Unitholders' Equity			
Liabilities:			
Debt	*8*	**$ 6,153,395**	$ 6,368,316
Exchangeable units	*9*	**212,233**	197,796
Deferred tax liability	*18*	**342,106**	348,755
Accounts payable and accrued liabilities	*10*	**317,545**	369,186
		7,025,279	7,284,053
Unitholders' equity		**6,155,920**	6,071,391
Commitments and contingencies	*20*		
Subsequent events	*8, 21*		
		$ 13,181,199	$ 13,355,444

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 March 31	
	Note	**2021**	2020
Property operating income:			
Rentals from investment properties	*14*	**$ 266,467**	$ 279,677
Property operating costs		**(132,789)**	(139,041)
		133,678	140,636
Net income from equity accounted investments	*4*	**7,191**	10,877
Finance cost - operations	*15*	**(59,491)**	(59,043)
Finance income	*15*	**5,874**	8,175
Trust (expenses) recoveries		**(5,319)**	10,461
Fair value adjustment on financial instruments	*15*	**13,126**	145,503
Fair value adjustment on real estate assets	*3*	**64,703**	(1,301,242)
Loss on sale of real estate assets, net of related costs	*3*	**(3,917)**	(1,901)
Net income (loss) before income taxes		**155,845**	(1,046,534)
Income tax recovery	*18*	**3,694**	26,713
Net income (loss)		**159,539**	(1,019,821)
Other comprehensive income (loss):			
Items that are or may be reclassified subsequently to net income (loss)	*13*	**(25,913)**	236,201
Total comprehensive income (loss) attributable to unitholders		**$ 133,626**	$ (783,620)

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

H&R REAL ESTATE INVESTMENT TRUST

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

UNITHOLDERS' EQUITY	*Note*	Value of Units	Accumulated net income	Accumulated distributions	Accumulated other comprehensive income	Total
Unitholders' equity, January 1, 2020		$ 5,389,499	$ 5,898,351	$ (4,490,431)	$ 246,498	$ 7,043,917
Proceeds from issuance of Units		1,427	-	-	-	1,427
Net loss		-	(1,019,821)	-	-	(1,019,821)
Distributions to unitholders		-	-	(98,768)	-	(98,768)
Other comprehensive income		-	-	-	236,201	236,201
Unitholders' equity, March 31, 2020		5,390,926	4,878,530	(4,589,199)	482,699	6,162,956
Proceeds from issuance of Units		840	-	-	-	840
Net income		-	395,262	-	-	395,262
Distributions to unitholders		-	-	(164,804)	-	(164,804)
Other comprehensive loss		-	-	-	(322,863)	(322,863)
Unitholders' equity, December 31, 2020		5,391,766	5,273,792	(4,754,003)	159,836	6,071,391
Proceeds from issuance of Units		**389**	**-**	**-**	**-**	**389**
Net income		**-**	**159,539**	**-**	**-**	**159,539**
Distributions to unitholders		**-**	**-**	**(49,486)**	**-**	**(49,486)**
Other comprehensive loss	***13***	**-**	**-**	**-**	**(25,913)**	**(25,913)**
Unitholders' equity, March 31, 2021		**$ 5,392,155**	**$ 5,433,331**	**$ (4,803,489)**	**$ 133,923**	**$ 6,155,920**

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)

		Three months ended March 31	
	Note	**2021**	2020
Cash provided by (used in):			
Operations:			
Net income (loss)		**$ 159,539**	$ (1,019,821)
Finance cost - operations	*15*	**59,491**	59,043
Interest paid		**(49,682)**	(63,730)
Items not affecting cash:			
Net income from equity accounted investments	*4*	**(7,191)**	(10,877)
Rent amortization of tenant inducements	*14*	**1,139**	495
Fair value adjustment on real estate assets	*3*	**(64,703)**	1,301,242
IFRIC 21 realty tax adjustment		**31,647**	32,326
Loss on sale of real estate assets, net of related costs	*3*	**3,917**	1,901
Fair value adjustment on financial instruments	*15*	**(13,126)**	(145,503)
Unit-based compensation expense (recovery)	*12(a)*	**778**	(16,436)
Deferred income tax recovery	*18*	**(3,934)**	(26,941)
Change in other non-cash operating items	*16*	**(26,441)**	(51,023)
		91,434	60,676
Investing:			
Properties under development:			
Acquisitions	*3*	**(220,919)**	-
Additions	*3, 16*	**(13,828)**	(44,563)
Investment properties:			
Net proceeds on disposition of real estate assets		**215,790**	67,831
Acquisitions	*3*	**(18)**	(37,638)
Redevelopment	*3, 16*	**(7,778)**	(21,849)
Capital expenditures	*3*	**(6,429)**	(8,522)
Leasing expenses and tenant inducements	*3*	**(3,502)**	(4,708)
Equity accounted investments, net		**21,591**	15,459
Mortgages receivable, net		**173,268**	217,601
Restricted cash	*6*	**(7,413)**	(30,427)
		150,762	153,184
Financing:			
Unsecured term loans	*8(d)*	**(186,629)**	-
Lines of credit	*8(d)*	**(305,862)**	197,597
Mortgages payable:			
New mortgages payable	*8(a)*	**37,083**	57,012
Principal repayments	*8(a)*	**(44,263)**	(27,958)
Redemption of debentures payable	*8(b)*	**-**	(337,500)
Proceeds from issuance of debentures payable	*8(b)*	**298,622**	-
Proceeds from issuance of Units		**-**	(125)
Distributions to unitholders		**(49,486)**	(98,768)
		(250,535)	(209,742)
Increase (decrease) in cash and cash equivalents		**(8,339)**	4,118
Cash and cash equivalents, beginning of year	*7*	**62,859**	48,640
Cash and cash equivalents, end of period	*7*	**$ 54,520**	$ 52,758

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. 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. 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 the REIT 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, time frame and effectiveness of vaccination roll-out, all of which are uncertain and difficult to predict. 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 have been and will continue to be impacted include rental income, occupancy, tenant inducements and future demand for space. In the preparation of the unaudited condensed consolidated interim financial statements, the REIT has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of its assets. The REIT has updated its future cash flows assumptions and its capitalization rates, terminal capitalization rates, and discount rates applied to these cash flows as well as updated its assumptions around the valuation of its accounts receivable and mortgages receivable.

1. Basis of preparation:

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. The December 31, 2020 comparative financial information has been derived from the December 31, 2020 audited annual consolidated financial statements.

The unaudited condensed consolidated interim financial statements were approved by the Board of Trustees of the REIT on May 13, 2021.

(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 Canadian dollar.

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

(c) Basis of measurement

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

(i) Real estate assets;

(ii) Assets classified as held for sale;

(iii) Certain mortgages receivable;

(iv) Derivative instruments;

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

(vi) Exchangeable units.

2. Significant accounting policies:

The accounting policies applied by the REIT in 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, 2020.

3. Real estate assets:

	March 31, 2021		December 31, 2020	
	Investment Properties	**Properties Under Development**	Investment Properties	Properties Under Development
Opening balance, beginning of year	**$ 11,149,130**	**$ 449,849**	$ 11,988,347	$ 683,145
Acquisitions, including transaction costs	**18**	**220,919**	33,506	34,710
Dispositions	**-**	**(630)**	(22,145)	-
Operating capital:				
Capital expenditures	**6,429**	**-**	52,980	-
Leasing expenses and tenant inducements	**3,502**	**-**	49,927	-
Development capital:				
Redevelopment (including capitalized interest)	**8,505**	**-**	77,867	-
Additions to properties under development (including capitalized interest)	**-**	**14,712**	-	182,876
Amortization of tenant inducements and straight-lining of contractual rents	**10,718**	**-**	13,905	-
Transfer of properties under development that have reached substantial completion to investment properties	**149,147**	**(149,147)**	436,400	(436,400)
Transfer of investment properties to assets classified as held for sale	**-**	**-**	(219,050)	-
Transfer of investment property from equity accounted investments	**-**	**-**	15,665	-
Transfer of investment properties to properties under development	**-**	**-**	(665)	665
Change in right-of-use asset[1]	**-**	**(248)**	-	(927)
Fair value adjustment on real estate assets	**57,487**	**7,216**	(1,195,958)	-
Change in foreign exchange	**(28,881)**	**(6,164)**	(81,649)	(14,220)
IFRIC 21-realty tax adjustment	**(31,647)**	**-**	-	-
Closing balance, end of period	**$ 11,324,408**	**$ 536,507**	$ 11,149,130	$ 449,849

(1) As at March 31, 2021, the right-of-use asset in a leasehold interest of $29,850 (December 31, 2020 - $30,336) was measured at an amount equal to the corresponding lease liability (note 10).

3. Real estate assets (continued):

Asset acquisitions:

During the three months ended March 31, 2021, the REIT:

(a) did not acquire any investment properties (year ended December 31, 2020 - acquired two industrial properties and one office property).

(b) acquired two residential properties under development (year ended December 31, 2020 - acquired one industrial property under development and one residential property 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 inclusive of transaction costs of the assets as at the respective dates of acquisition:

	March 31 2021	December 31 2020
Assets		
Investment properties	**$ -**	$ 33,477
Properties under development	**220,919**	34,710
	$ 220,919	$ 68,187

During the three months ended March 31, 2021, the REIT incurred additional costs of $18 (year ended December 31, 2020 - $29) in respect of prior year acquisitions which are not included in the above table.

Asset dispositions:

During the three months ended March 31, 2021, the REIT sold one U.S. office property, a 50% interest in one industrial property and one U.S. office property under development and recognized a loss on sale of real estate assets of $3,917.

During the three months ended March 31, 2020, the REIT sold two residential properties and recognized a loss on sale of real estate assets of $1,901.

Fair value disclosure:

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

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

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

During the three months ended March 31, 2021, 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. External independent appraisals received throughout the period represent 11.5% of the fair value of investment properties as at March 31, 2021 (year ended December 31, 2020 - 13.4%).

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.

3. Real estate assets (continued):

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
March 31, 2021	**6.62%**	**5.33%**	**6.19%**	**7.51%**	**6.60%**	**7.32%**	**6.93%**	**6.01%**	**6.74%**
December 31, 2020	6.63%	5.39%	6.22%	7.54%	6.63%	7.35%	6.94%	6.03%	6.75%

* Excludes the residential segment.

The REIT reviewed the assumptions used in determining the fair value of investment properties as at March 31, 2021. The COVID-19 pandemic has had a notable impact on the REIT's office properties leased to oil and gas tenants due to increased vacancy rates causing lower market rents in Calgary, AB and Houston, TX. Although the retail portfolio continues to be impacted by the pandemic, there have been favourable outcomes partially increasing the fair value of the REIT's retail portfolio for the three months ended March 31, 2021.

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 which is representative of the discount rate and terminal capitalization rate applied as at March 31, 2021:

Capitalization Rate Sensitivity Increase (Decrease)	Capitalization Rate	Fair Value of Investment Properties	Fair Value Variance	% Change
(0.75%)	5.44%	$ 12,885,677	$ 1,561,269	13.79%
(0.50%)	5.69%	$ 12,319,523	$ 995,115	8.79%
(0.25%)	5.94%	$ 11,801,024	$ 476,616	4.21%
March 31, 2021	**6.19%**	**$ 11,324,408**	**$ -**	**0.00%**
0.25%	6.44%	$ 10,884,796	$ (439,612)	(3.88%)
0.50%	6.69%	$ 10,478,040	$ (846,368)	(7.47%)
0.75%	6.94%	$ 10,100,589	$ (1,223,819)	(10.81%)

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 three months ended March 31, 2021, the REIT did not acquire or dispose of any equity accounted investments.

During the year ended December 31, 2020, the REIT: (i) disposed of one industrial property; (ii) purchased one industrial property under development; and (iii) 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.

4. Equity accounted investments (continued):

			Ownership interest	
			March 31	December 31
	Location	**Operating segment**	**2021**	2020
Investments in joint ventures:[1]				
Slate Drive	Canada	Industrial	**50.0%**	50.0%
One industrial property	United States	Industrial	**50.5%**	50.5%
Hercules Project	United States	Residential	**31.7%**	31.7%
The Pearl	United States	Residential	**33.3%**	33.3%
Esterra Park	United States	Residential	**33.3%**	33.3%
Shoreline	United States	Residential	**31.2%**	31.2%
Investments in associates:[2]				
ECHO Realty LP ("ECHO")	United States	Retail	**33.6%**	33.6%
Jackson Park	United States	Residential	**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:

	March 31, 2021				December 31, 2020			
Equity accounted investments in:	**----Associates----**		**Joint Ventures**		----Associates----		Joint Ventures	
	ECHO	**Jackson Park**	**(1)**	**Total**	ECHO	Jackson Park	(1)	Total
Investment properties[2]	**$ 2,465,536**	**$ 1,844,010**	**$ 134,601**	**$ 4,444,147**	$ 2,477,430	$ 1,936,750	$ 141,945	$ 4,556,125
Properties under development	**13,231**	**-**	**614,169**	**627,400**	50,071	-	569,669	619,740
Assets classified as held for sale	**-**	**-**	**-**	**-**	33,020	-	-	33,020
Other assets	**42,409**	**4,195**	**1,080**	**47,684**	44,939	9,126	1,824	55,889
Cash and cash equivalents	**27,225**	**69,493**	**11,060**	**107,778**	29,736	27,860	12,237	69,833
Debt	**(967,477)**	**(1,244,041)**	**(356,056)**	**(2,567,574)**	(1,004,874)	(1,253,443)	(300,681)	(2,558,998)
Accounts payable and accrued liabilities	**(27,159)**	**(14,326)**	**(49,794)**	**(91,279)**	(62,132)	(13,149)	(59,121)	(134,402)
Lease liability[2]	**(98,643)**	**-**	**-**	**(98,643)**	(119,310)	-	-	(119,310)
Non-controlling interest	**(67,680)**	**-**	**-**	**(67,680)**	(67,948)	-	-	(67,948)
Net assets	**1,387,442**	**659,331**	**355,060**	**2,401,833**	1,380,932	707,144	365,873	2,453,949
REIT's share of net assets	**$ 473,466**	**$ 329,994**	**$ 130,183**	**$ 933,643**	$ 471,337	$ 353,903	$ 130,228	$ 955,468

(1) The REIT's investments in joint ventures are comprised of:

(a) one U.S. industrial property (2020 - one) and one U.S. residential property (2020 - one); and
(b) four U.S. residential properties under development (2020 - four) and one Canadian industrial property under development (2020 - one).

(2) As at March 31, 2021, the total fair value of investment properties, within equity accounted investments, net of the lease liability is $4,345,504 (December 31, 2020 - $4,436,815).

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 February 28, 2021 and November 30, 2020, respectively.

4. Equity accounted investments (continued):

Net income (loss) from equity accounted investments in:	Three months ended March 31, 2021				Three months ended March 31, 2020			
		----Associates----	Joint Ventures			----Associates----	Joint Ventures	
	ECHO	Jackson Park	(1)	Total	ECHO	Jackson Park	(1)	Total
Rentals from investment properties	**$ 51,941**	**$ 14,647**	**$ 2,622**	**$ 69,210**	$ 53,877	$ 27,370	$ 1,436	$ 82,683
Property operating costs	**(21,570)**	**(7,424)**	**(1,509)**	**(30,503)**	(21,722)	(7,292)	(368)	(29,382)
Net income from equity accounted investments	**225**	**-**	**-**	**225**	227	-	-	227
Finance income	**94**	**-**	**(824)**	**(730)**	246	-	77	323
Finance cost - operations	**(10,866)**	**(10,790)**	**(553)**	**(22,209)**	(12,579)	(11,506)	-	(24,085)
Trust (expenses) recoveries	**(1,981)**	**-**	**(14)**	**(1,995)**	(2,755)	-	52	(2,703)
Fair value adjustment on financial instruments	**2,974**	**-**	**-**	**2,974**	(3,247)	-	-	(3,247)
Fair value adjustment on real estate assets	**5,861**	**39**	**72**	**5,972**	7,273	461	(401)	7,333
Gain (loss) on sale of real estate assets	**10**	**-**	**-**	**10**	(2,246)	-	(312)	(2,558)
Income tax (expense) recovery	**(40)**	**-**	**-**	**(40)**	19	-	7	26
Net income (loss)	**26,648**	**(3,528)**	**(206)**	**22,914**	19,093	9,033	491	28,617
Net income attributable to non-controlling interest	**(704)**	**-**	**-**	**(704)**	(863)	-	-	(863)
Net income (loss) attributable to owners	**25,944**	**(3,528)**	**(206)**	**22,210**	18,230	9,033	491	27,754
REIT's share of net income (loss) attributable to unitholders	**$ 8,716**	**$ (1,764)**	**$ 239**	**$ 7,191**	$ 6,124	$ 4,517	$ 236	$ 10,877

(1) The REIT's share of net income from joint ventures was earned from its investments in one U.S. industrial property (three months ended March 31, 2020 - two) and one U.S. residential property (three months ended March 31, 2020 - one).

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, 2020 to February 28, 2021 and December 1, 2019 to February 29, 2020, respectively.

5. Assets classified as held for sale:

As at March 31, 2021, the REIT had no properties (December 31, 2020 - one U.S. office property and a 50% interest in one industrial property) classified as held for sale.

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

	March 31 2021	December 31 2020
Assets		
Investment properties	**$ -**	$ 219,050
	$ -	$ 219,050

6. Other assets:

	Note	**March 31 2021**	December 31 2020
Current:			
Mortgages receivable[1]		**$ 92,836**	$ 270,643
Prepaid expenses and sundry assets		**45,008**	63,058
Accounts receivable[2] - net of provision for expected credit loss of $14,377 (2020 - $15,135)		**18,518**	19,618
Restricted cash		**15,145**	7,732
Derivative instruments	*11*	**1,852**	730
Non-current:			
Mortgages receivable[1]		**156,427**	154,843
Derivative instruments	*11*	**2,335**	2,464
		$ 332,121	$ 519,088

(1) Mortgages receivable include $63,371 classified as fair value through profit and loss ("FVTPL") and $185,892 classified as amortized cost (December 31, 2020 - $240,716 and $184,770, respectively). As at March 31, 2021, mortgages receivable bear interest at effective rates between 4.00% and 14.32% per annum (December 31, 2020 - between 4.40% and 14.32% per annum) with a weighted average effective rate of 9.57% per annum (December 31, 2020 - 9.78%), and mature between 2021 and 2029 (December 31, 2020 - mature between 2021 and 2029).

(2) In determining the expected credit loss, the REIT performed a tenant-by-tenant assessment considering the payment history and future expectations of default based on actual and expected insolvency filings. The following is a summary of the changes in the provision for expected credit loss impacted by COVID-19:

	March 31 2021	December 31 2020
Opening balance, beginning of year	**$ 15,135**	$ 1,073
Bad debt expense*	**992**	39,708
Accounts receivable write-off	**(1,750)**	(25,646)
Closing balance, end of period	**$ 14,377**	$ 15,135

* Year ended December 31, 2020 includes $5,855 of rent abatements granted under the Canada Emergency Commercial Rent Assistance (CECRA) program.

7. Cash and cash equivalents:

Cash and cash equivalents at March 31, 2021 includes cash on hand of $54,520 (December 31, 2020 - $62,587) and bank term deposits of nil (December 31, 2020 - $272 bearing interest at a rate of 0.09%).

Included in cash and cash equivalents at March 31, 2021 are U.S. dollar denominated amounts of U.S. $25,251 (December 31, 2020 - U.S. $27,127). The Canadian equivalent of these amounts is $31,816 (December 31, 2020 - $34,451).

8. Debt:

The REIT's debt consists of the following items:

	Note	**March 31 2021**	December 31 2020
Mortgages payable	*8(a)*	**$ 3,606,760**	$ 3,623,652
Debentures payable	*8(b)*	**1,867,979**	1,568,817
Unsecured term loans	*8(c)*	**500,000**	688,029
Lines of credit	*8(d)*	**178,656**	487,818
		$ 6,153,395	$ 6,368,316

(a) Mortgages payable:

The mortgages payable are secured by 110 real estate assets with an aggregate fair value of $7,553,848, bear interest at fixed rates with a contractual weighted average rate of 3.95% (December 31, 2020 - 4.01%) per annum and mature between 2021 and 2032 (December 31, 2020 - maturing between 2021 and 2032). Included in mortgages payable at March 31, 2021 are U.S. dollar denominated mortgages of U.S. $1,064,333 (December 31, 2020 - U.S. $1,053,304). The Canadian equivalent of these amounts is $1,341,060 (December 31, 2020 - $1,337,696).

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:

	March 31 2021
Years ending December 31:	
2021*[(1)]	**$ 893,213**
2022	**645,486**
2023	**449,001**
2024	**94,326**
2025	**147,240**
Thereafter	**1,390,278**
	3,619,544
Financing costs and mark-to-market adjustment arising on acquisitions	**(12,784)**
	$ 3,606,760

* For the balance of the year.

(1) Subsequent to March 31, 2021, the REIT renewed $237,495 of mortgages which were previously maturing in 2021 for a one-year term.

8. Debt (continued):

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

	March 31 2021	December 31 2020
Opening balance, beginning of year	**$ 3,623,652**	$ 3,630,858
Principal repayments:		
Scheduled amortization on mortgages	**(27,893)**	(122,857)
Mortgage repayments	**(16,370)**	(70,928)
New mortgages	**37,083**	214,772
Effective interest rate accretion on mortgages	**821**	2,712
Change in foreign exchange	**(10,533)**	(30,905)
Closing balance, end of period	**$ 3,606,760**	$ 3,623,652

(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:

					March 31 2021	December 31 2020
	Maturity	**Contractual interest rate**	**Effective interest rate**	**Principal amount**	**Carrying value**	Carrying value
Senior Debentures						
Series L Senior Debentures	May 6, 2022	2.92%	3.11%	$ 325,000	**$ 323,981**	$ 323,776
Series O Senior Debentures	January 23, 2023	3.42%	3.44%	250,000	**249,434**	249,360
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	**348,852**	348,758
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	**398,199**	398,105
Series R Senior Debentures	June 2, 2026	2.91%	3.00%	250,000	**248,868**	248,818
Series S Senior Debentures	February 19, 2027	2.63%	2.72%	300,000	**298,645**	-
		3.27%	3.37%	$ 1,875,000	**$ 1,867,979**	$ 1,568,817

The Series L, O, N, Q, R and S 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 O	January 23 and July 23
Series N	January 30 and July 30
Series Q	June 16 and December 16
Series R	June 2 and December 2
Series S	February 19 and August 19

8. Debt (continued):

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

	March 31 2021	December 31 2020
Senior Debentures		
Carrying value, beginning of year	**$ 1,568,817**	$ 1,257,731
Redemption - Series P Senior Debentures	**-**	(162,500)
Redemption - Series F Senior Debentures	**-**	(175,000)
Issuance - Series Q Senior Debentures	**-**	397,900
Issuance - Series R Senior Debentures	**-**	248,803
Issuance - Series S Senior Debentures	**298,622**	-
Accretion adjustment	**540**	1,883
Carrying value, end of period	**$ 1,867,979**	$ 1,568,817

(c) Unsecured term loans:

The REIT has the following unsecured term loans:

	Maturity Date	**March 31 2021**	December 31 2020
H&R REIT unsecured term loan #1[(1)]	March 17, 2021	**$ -**	$ 188,029
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
		$ 500,000	$ 688,029

(1) The total facility drawn in Canadian and U.S. dollars was repaid in March 2021. The REIT had 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, which settled in March 2021.

(2) In November 2020, the interest rate swap was amended to fix the interest rate at 3.17% per annum and the maturity date was extended to May 7, 2030. Previously, the interest rate was fixed at 3.33% per annum with a maturity date of 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 March 31, 2021, are U.S. denominated amounts of nil (December 31, 2020 - U.S. $140,000). The Canadian equivalent of these amounts is nil (December 31, 2020 - $177,800).

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[2]	$ 500,000	$ -	$ -	$ 500,000
H&R REIT revolving unsecured line of credit #2	September 20, 2022	150,000	-	-	150,000
H&R REIT revolving unsecured line of credit #3	January 31, 2023	200,000	-	-	200,000
H&R REIT revolving unsecured line of credit #4	September 20, 2023	350,000	(1,936)	(1,985)	346,079
H&R REIT revolving unsecured letter of credit facility		60,000	-	(29,534)	30,466
Sub-total		1,260,000	(1,936)	(31,519)	1,226,545
Revolving secured operating lines of credit[1]:					
H&R REIT and CrestPSP revolving secured line of credit	April 30, 2021[3]	62,500	(51,500)	(105)	10,895
Primaris revolving secured line of credit	December 31, 2021	300,000	(125,220)	-	174,780
Sub-total		362,500	(176,720)	(105)	185,675
March 31, 2021		**$ 1,622,500**	**$ (178,656)**	**$ (31,624)**	**$ 1,412,220**
December 31, 2020		$ 1,622,500	$ (487,818)	$ (31,797)	$ 1,102,885

(1) Secured by certain investment properties.
(2) In April 2021, the REIT secured a one-year extension on the unsecured line of credit from a syndicate of five Canadian banks for $300,000. The maturity date was extended to April 17, 2022.
(3) In April 2021, the REIT secured a one-year extension on the H&R REIT and CrestPSP revolving secured line of credit for $62,500. The maturity date was extended to April 30, 2022.

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 March 31, 2021 are U.S. dollar denominated amounts of U.S. $97,000 (December 31, 2020 - U.S. $330,000). The Canadian equivalent of these amounts is $122,220 (December 31, 2020 - $419,100).

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

	March 31, 2021		December 31, 2020	
	Unsecured Term Loans	**Lines of Credit**	Unsecured Term Loans	Lines of Credit
Opening balance, beginning of year	**$ 688,029**	**$ 487,818**	$ 692,229	$ 795,042
Net repayments	**(186,629)**	**(305,862)**	-	(295,959)
Change in foreign exchange	**(1,400)**	**(3,300)**	(4,200)	(11,265)
Closing balance, end of period	**$ 500,000**	**$ 178,656**	$ 688,029	$ 487,818

9. Exchangeable units:

Certain of the REIT's subsidiaries have in aggregate 14,883,065 (December 31, 2020 - 14,883,065) 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 March 31, 2021 was $14.26 (December 31, 2020 - $13.29) per Unit.

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

	March 31 2021	December 31 2020
Carrying value, beginning of year	**$ 197,796**	$ 323,173
Exchanged for Units	**-**	(4,228)
(Gain) loss on fair value of exchangeable units	**14,437**	(121,149)
Carrying value, end of period	**$ 212,233**	$ 197,796

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	**March 31 2021**	December 31 2020
Current:			
Other accounts payable and accrued liabilities		**$ 175,915**	$ 205,572
Distributions payable		**17,352**	17,350
Debt interest payable		**33,563**	21,852
Prepaid rent		**30,635**	35,355
Derivative instruments	*11*	**-**	469
Unit-based compensation payable:			
Options	*12(a)*	**736**	789
Incentive units	*12(a)*	**2,507**	3,807
Non-current:			
Derivative instruments	*11*	**15,225**	41,820
Lease liability[(1)]		**29,850**	30,336
Security deposits		**7,355**	6,709
Unit-based compensation payable:			
Incentive units	*12(a)*	**4,407**	5,127
		$ 317,545	$ 369,186

(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	
			March 31	December 31	Three months ended March 31	
		Maturity	**2021**	2020	**2021**	2020
Debenture interest rate swap	(1)	February 13, 2020	**$ -**	$ -	**$ -**	$ 404
Term loan interest rate swap	(2)	March 17, 2021	**-**	(469)	**469**	(2,310)
Term loan interest rate swap	(3)	May 7, 2030	**(2,271)**	(20,797)	**18,526**	(15,727)
Term loan interest rate swap	(4)	January 6, 2026	**(12,954)**	(21,023)	**8,069**	(14,903)
Incentive units swap	(5), (6)	2022	**938**	730	**208**	-
Incentive units swap	(5)	2022	**914**	701	**213**	-
Incentive units swap	(5)	2023	**2,335**	1,763	**572**	-
			$ (11,038)	$ (39,095)	**$ 28,057**	$ (32,536)

The REIT entered into swaps as follows:

(1) To fix the interest rate at 3.67% per annum for the Series P senior debentures which settled upon maturity.
(2) To fix the interest rate at 2.56% per annum for the U.S. $130,000 term loan, which settled in March 2021.
(3) In November 2020, the interest rate swap was amended to fix the interest rate at 3.17% per annum for the $250,000 term loan and the maturity date was extended to May 7, 2030. Previously, the interest rate was fixed at 3.33% per annum with a maturity date of March 7, 2026.
(4) To fix the interest rate at 3.91% per annum for the $250,000 term loan.
(5) To fix the payout on incentive units that mature in the respective years.
(6) In February 2021, the incentive units swap with a maturity date in 2021 was extended to 2022.

* 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 and the changes during the respective periods are as follows:

	March 31	December 31
	2021	2020
Balance, beginning of year	**286,863,083**	286,690,236
Issuance of Units:		
Incentive units settled in Units	**29,175**	172,847
Balance, end of period	**286,892,258**	286,863,083

The weighted average number of basic Units for the three months ended March 31, 2021 is 286,874,753 (March 31, 2020 - 286,712,413).

12. Unitholders' equity (continued):

(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 March 31, 2021, a maximum of 17,723,110 (December 31, 2020 - 17,723,110) options to purchase Units were authorized to be issued; 10,400,029 (December 31, 2020 - 10,543,362) options have been granted and are outstanding and 7,323,081 (December 31, 2020 - 7,179,748) options have not yet been granted. The exercise price of each option approximates the quoted price of the Units on the date of grant. The options vest at 33.3% per year from the grant date, will be fully vested after three years, and expire ten years after the date of the grant.

A summary of the status of the unit option plan and the changes during the three months ended March 31, 2021 are as follows:

	March 31, 2021		December 31, 2020	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**10,543,362**	**$ 20.55**	10,647,642	$ 20.57
Granted	**-**	**-**	-	-
Exercised	**-**	**-**	-	-
Expired	**(143,333)**	**19.57**	(104,280)	23.10
Outstanding and vested, end of period	**10,400,029**	**$ 20.56**	10,543,362	$ 20.55

The outstanding and vested options at March 31, 2021 are exercisable at varying prices ranging from $18.98 to $23.18 (December 31, 2020 - $18.98 to $23.18) with a weighted average remaining life of 3.6 years (December 31, 2020 - 3.8 years).

(ii) Incentive unit plan:

As at March 31, 2021, a maximum of 5,000,000 (December 31, 2020 - 5,000,000) incentive units exchangeable into Units were authorized to be issued. The REIT has granted 1,231,349 (December 31, 2020 - 1,093,375) incentive units which remain outstanding, 213,474 (December 31, 2020 - 184,299) incentive units have been settled for Units and 3,555,177 (December 31, 2020 - 3,722,326) incentive units remain available for granting.

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

The REIT grants restricted units under the incentive unit plan. As at March 31, 2021, 67.84% of the restricted units granted vest on the third anniversary and 32.16% of the restricted units granted vest on the fifth anniversary of their respective grant dates and are subject to forfeiture until the recipients of the awards have held office with or provided services to the REIT for a specified period of time. The restricted units are, subject to the holder's election, cash settled upon vesting.

The REIT grants performance units under the incentive unit plan with a three-year performance period for certain senior executives. The performance units are and will be subject to both internal and external measures consisting of both absolute and relative performance over a three-year period and, subject to the holder's election, cash settled upon vesting. In February 2021, the grant of performance units awarded in 2018 vested at 0% of target and in March 2020, the first grant of performance units awarded in 2017 vested at 59% of target.

12. Unitholders' equity (continued):

A summary of the status of the incentive unit plan and the changes during the three months ended March 31, 2021 are as follows:

	March 31 2021
	Incentive units
Outstanding, beginning of year	**1,093,375**
Granted	**428,951**
Settled	**(216,458)**
Expired	**(74,519)**
Outstanding, end of period	**1,231,349**

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

	March 31 2021	December 31 2020
Options	**$ 736**	$ 789
Incentive units	**6,914**	8,934
	$ 7,650	$ 9,723

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

	Three months ended March 31	
	2021	2020
Options	**$ (52)**	$ (12,016)
Incentive units	**830**	(4,420)
	$ 778	$ (16,436)

(b) Distributions:

For the three months ended March 31, 2021, the REIT declared distributions per Unit of $0.17 (March 31, 2020 - $0.35).

13. Accumulated other comprehensive income:

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

	Note	**March 31, 2021**			December 31 2020
		Cash flow hedges	**Foreign operations**	**Total**	Total
Opening balance, beginning of year		**$ (193)**	**$ 160,029**	**$ 159,836**	$ 246,498
Transfer of realized loss on cash flow hedges to net income (loss)		**8**	**-**	**8**	30
Unrealized loss on translation of U.S. denominated foreign operations		**-**	**(21,221)**	**(21,221)**	(71,227)
Net loss on hedges of net investments in foreign operations	*8*	**-**	**(4,700)**	**(4,700)**	(15,465)
		8	**(25,921)**	**(25,913)**	(86,662)
Closing balance, end of period		**$ (185)**	**$ 134,108**	**$ 133,923**	$ 159,836

14. Rentals from investment properties:

	Three months ended March 31	
	2021	2020
Rental income	**$ 207,558**	$ 222,817
Revenue from services	**48,843**	55,464
Straight-lining of contractual rent	**11,205**	1,891
Rent amortization of tenant inducements	**(1,139)**	(495)
	$ 266,467	$ 279,677

15. Finance costs:

	Three months ended March 31	
	2021	2020
Finance cost - operations		
Contractual interest on mortgages payable	**$ 35,709**	$ 37,515
Contractual interest on debentures payable	**14,008**	9,479
Contractual interest on unsecured term loans	**5,259**	5,749
Bank interest and charges on lines of credit	**2,223**	5,710
Effective interest rate accretion	**1,336**	886
Exchangeable unit distributions	**2,567**	5,284
	61,102	64,623
Capitalized interest[1]	**(1,611)**	(5,580)
	59,491	59,043
Finance income	**(5,874)**	(8,175)
Fair value adjustment on financial instruments	**(13,126)**	(145,503)
	$ 40,491	$ (94,635)

(1) The weighted average rate of borrowings for the capitalized interest is 3.60% (March 31, 2020 - 3.60%).

16. Supplemental cash flow information:

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

	Three months ended March 31	
	2021	2020
Accrued rents receivable	**$ (11,857)**	$ (2,532)
Prepaid expenses and sundry assets	**18,927**	(32,028)
Accounts receivable	**1,100**	(1,033)
Accounts payable and accrued liabilities	**(34,611)**	(15,430)
	$ (26,441)	$ (51,023)

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

		Three months ended March 31	
	Note	**2021**	2020
Non-cash items:			
Non-cash adjustment to proceeds from issuance of Units		**$ 389**	$ 1,552
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
Other items:			
Change in accounts payable on lease liability and right-of-use asset	*3*	**248**	190
Change in debt interest payable included in finance cost - operations	*10*	**(11,711)**	(7)
Capitalized interest on redevelopment	*15*	**(727)**	(1,392)
Capitalized interest on properties under development	*15*	**(884)**	(4,188)

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 March 31, 2021 and December 31, 2020 are as follows:

March 31, 2021	**Office**	**Retail**	**Industrial**	**Residential**	**Total**
Number of investment properties	**32**	**322**	**86**	**24**	**464**
Real estate assets:					
Investment properties	**$ 5,061,280**	**$ 4,015,944**	**$ 1,218,381**	**$ 2,837,038**	**$ 13,132,643**
Properties under development	**7,427**	**4,445**	**126,774**	**606,951**	**745,597**
	5,068,707	**4,020,389**	**1,345,155**	**3,443,989**	**13,878,240**
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	**-**	**(840,374)**	**(34,906)**	**(1,142,045)**	**(2,017,325)**
	$ 5,068,707	**$ 3,180,015**	**$ 1,310,249**	**$ 2,301,944**	**$ 11,860,915**

December 31, 2020	Office	Retail	Industrial	Residential	Total
Number of investment properties	33	327	87	23	470
Real estate assets:					
Investment properties	$ 5,334,288	$ 3,934,305	$ 1,225,366	$ 2,744,695	$ 13,238,654
Properties under development	7,984	16,822	126,095	506,163	657,064
	5,342,272	3,951,127	1,351,461	3,250,858	13,895,718
Less: assets classified as held for sale	(209,550)	-	(9,500)	-	(219,050)
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	-	(856,807)	(35,231)	(1,174,558)	(2,066,596)
Less: REIT's proportionate share of assets classified as held for sale relating to equity accounted investments	-	(11,093)	-	-	(11,093)
	$ 5,132,722	$ 3,083,227	$ 1,306,730	$ 2,076,300	$ 11,598,979

17. Segmented disclosures (continued):

Property operating income by reportable segment for the three months ended March 31, 2021 and March 31, 2020 is as follows:

March 31, 2021	**Office**	**Retail**	**Industrial**	**Residential**	**Sub-total**	**Less: Equity Accounted Investments**	**Total**
Rentals from investment properties	**$ 129,289**	**$ 96,516**	**$ 21,288**	**$ 45,130**	**$ 292,223**	**$ (25,756)**	**$ 266,467**
Property operating costs	**(50,752)**	**(46,667)**	**(6,260)**	**(40,575)**	**(144,254)**	**11,465**	**(132,789)**
Property operating income	**$ 78,537**	**$ 49,849**	**$ 15,028**	**$ 4,555**	**$ 147,969**	**$ (14,291)**	**$ 133,678**

March 31, 2020	Office	Retail	Industrial	Residential	Sub-total	Less: Equity Accounted Investments	Total
Rentals from investment properties	$ 134,735	$ 103,267	$ 21,398	$ 52,787	$ 312,187	$ (32,510)	$ 279,677
Property operating costs	(56,531)	(46,191)	(6,287)	(41,162)	(150,171)	11,130	(139,041)
Property operating income	$ 78,204	$ 57,076	$ 15,111	$ 11,625	$ 162,016	$ (21,380)	$ 140,636

(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.

	March 31 2021	December 31 2020
Real estate assets:		
Canada	**$ 7,668,615**	$ 7,599,011
United States	**6,209,625**	6,296,707
	13,878,240	13,895,718
Less: assets classified as held for sale	**-**	(219,050)
Less: REIT's proportionate share of real estate assets relating to equity accounted investments	**(2,017,325)**	(2,066,596)
Less: REIT's proportionate share of assets classified as held for sale relating to equity accounted investments	**-**	(11,093)
	$ 11,860,915	$ 11,598,979

	Three months ended March 31	
	2021	2020
Rentals from investment properties:		
Canada	**$ 196,607**	$ 205,524
United States	**95,616**	106,663
	292,223	312,187
Less: REIT's proportionate share of rentals relating to equity accounted investments	**(25,756)**	(32,510)
	$ 266,467	$ 279,677

18. Income tax recovery:

	Three months ended March 31	
	2021	2020
Income tax computed at the Canadian statutory rate of nil applicable to the REIT for 2021 and 2020	**$ -**	$ -
Current U.S. income taxes	**240**	228
Deferred income tax recoveries applicable to U.S. Holdco	**(3,934)**	(26,941)
Income tax recovery in the determination of net income (loss)	**$ (3,694)**	$ (26,713)

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% (2020 - 23.5%). The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	March 31 2021	December 31 2020
Deferred tax assets:		
Net operating losses	**$ 81,140**	$ 73,346
Accounts payable and accrued liabilities	**457**	691
Other assets	**1,142**	2,779
	82,739	76,816
Deferred tax liabilities:		
Investment properties	**303,723**	302,993
Equity accounted investments	**121,122**	122,578
	424,845	425,571
Deferred tax liability	**$ (342,106)**	$ (348,755)

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

(b) Fair value of assets and liabilities:

Assets and liabilities measured at fair value in the 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).

March 31, 2021	*Note*	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets measured at fair value						
Investment properties	*3*	$ -	$ -	$ 11,324,408	$ 11,324,408	$ 11,324,408
Properties under development	*3*	-	-	536,507	536,507	536,507
Mortgages receivable	*6*	-	63,371	-	63,371	63,371
Derivative instruments	*6*	-	4,187	-	4,187	4,187
Cash and cash equivalents	*7*	54,520	-	-	54,520	54,520
Assets for which fair values are disclosed						
Mortgages receivable	*6*	-	-	186,434	186,434	185,892
		54,520	67,558	12,047,349	12,169,427	12,168,885
Liabilities measured at fair value						
Exchangeable units	*9*	(212,233)	-	-	(212,233)	(212,233)
Derivative instruments	*10*	-	(15,225)	-	(15,225)	(15,225)
Liabilities for which fair values are disclosed						
Mortgages payable	*8(a)*	-	(3,714,903)	-	(3,714,903)	(3,606,760)
Debentures payable	*8(b)*	-	(1,940,468)	-	(1,940,468)	(1,867,979)
Unsecured term loans	*8(c)*	-	(500,593)	-	(500,593)	(500,000)
Lines of credit	*8(d)*	-	(178,850)	-	(178,850)	(178,656)
		(212,233)	(6,350,039)	-	(6,562,272)	(6,380,853)
		$ (157,713)	$ (6,282,481)	$ 12,047,349	$ 5,607,155	$ 5,788,032

19. Fair value measurement (continued):

December 31, 2020	*Note*	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets measured at fair value						
Investment properties	*3*	$ -	$ -	$ 11,149,130	$ 11,149,130	$ 11,149,130
Properties under development	*3*	-	-	449,849	449,849	449,849
Assets classified as held for sale	*5*	-	-	219,050	219,050	219,050
Mortgages receivable	*6*	-	-	240,716	240,716	240,716
Derivative instruments	*6*	-	3,194	-	3,194	3,194
Cash and cash equivalents	*7*	62,859	-	-	62,859	62,859
Assets for which fair values are disclosed						
Mortgages receivable	*6*	-	186,458	-	186,458	184,770
		62,859	189,652	12,058,745	12,311,256	12,309,568
Liabilities measured at fair value						
Exchangeable units	*9*	(197,796)	-	-	(197,796)	(197,796)
Derivative instruments	*10*	-	(42,289)	-	(42,289)	(42,289)
Liabilities for which fair values are disclosed						
Mortgages payable	*8(a)*	-	(3,793,966)	-	(3,793,966)	(3,623,652)
Debentures payable	*8(b)*	-	(1,651,492)	-	(1,651,492)	(1,568,817)
Unsecured term loans	*8(c)*	-	(688,733)	-	(688,733)	(688,029)
Lines of credit	*8(d)*	-	(488,319)	-	(488,319)	(487,818)
		(197,796)	(6,664,799)	-	(6,862,595)	(6,608,401)
		$ (134,937)	$ (6,475,147)	$ 12,058,745	$ 5,448,661	$ 5,701,167

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 March 31, 2021, the REIT has outstanding letters of credit totalling $31,624 (December 31, 2020 - $31,797), including $12,442 (December 31, 2020 - $12,470) which has been pledged as security for certain mortgages payable. The letters of credit may be secured by certain investment properties.

(b) The REIT provides guarantees on behalf of third parties, including co-owners. As at March 31, 2021, the REIT issued guarantees amounting to $306,884 (December 31, 2020 - $290,148), which expire between 2021 and 2027 (December 31, 2020 - expire between 2021 and 2027), relating to the co-owner's share of mortgage liability.

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

(c) The REIT is obligated, under certain contract terms, to construct and develop investment properties.

(d) The REIT is involved in litigation and claims in relation to the investment properties that arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the unaudited condensed consolidated interim financial statements.

21. Subsequent events:

(a) In April 2021, the REIT secured a one-year extension on the unsecured line of credit from a syndicate of five Canadian banks for $300,000. The maturity date was extended to April 17, 2022 (note 8(d)).

(b) In April 2021, the REIT secured a one-year extension on the H&R REIT and CrestPSP revolving secured line of credit for $62,500. The maturity date was extended to April 30, 2022 (note 8(d)).

(c) Subsequent to March 31, 2021, the REIT renewed $237,495 of mortgages which were previously maturing in 2021 for a one-year term.

(d) Subsequent to March 31, 2021, the REIT completed a 10-year lease with an industrial tenant to occupy 105,133 square feet at 34 Speirs Giffen Ave., Caledon, ON, a single-tenant property currently under development. Occupancy is expected to commence in Q2 2022. This will be the second property constructed at the REIT's industrial business park in Caledon which consists of approximately 144 acres.

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

For the three months ended March 31, 2021

Dated: May 13, 2021

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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 months ended March 31, 2021 includes material information up to May 13, 2021. Financial data for the three months ended March 31, 2021 and 2020 have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of the REIT and related notes for the three months ended March 31, 2021 ("REIT's Financial Statements"), together with the audited consolidated financial statements of the REIT and related notes and MD&A for the year ended December 31, 2020. 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. 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. 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 the REIT is unknown at this time, as is the efficacy of the governments' 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, time frame and effectiveness of vaccination roll-out, all of which are uncertain and difficult to predict. 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 have been and will continue to be impacted include rental income, occupancy, tenant inducements and future demand for space. In the preparation of the REIT's Financial Statements and MD&A, the REIT has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of its assets. The REIT has updated its future cash flows assumptions and its capitalization rates, terminal capitalization rates, and discount rates applied to these cash flows as well as updated its assumptions around the valuation of its accounts receivable and mortgages receivable.

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 Q1 2021 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 and the REIT's tenants, the REIT's bad debt expense and expected credit loss, the state of the retail market, 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 to withstand the remainder of the pandemic, and management's expectation to be able to meet all of the REIT's ongoing obligations. Forward-looking statements generally can be identified by words such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans", "project", "budget" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect H&R's current beliefs and are based on information currently available to management.

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements are not guarantees of future performance and are based on H&R's estimates and assumptions that are subject to risks, uncertainties and other factors including those risks and uncertainties described below under "Risks and Uncertainties" and those discussed in H&R's materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results, performance or achievements of H&R to differ materially from the forward-looking statements contained in this MD&A. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that the general economy is currently volatile and in an economic downturn as a result of the COVID-19 pandemic and fluctuations in 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, and additional tax risk applicable to unitholders. H&R cautions that these lists of factors, risks and uncertainties are not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what H&R believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

Readers are also urged to examine H&R's materials filed with the Canadian securities regulatory authorities from time to time as they may contain discussions on risks and uncertainties which could cause the actual results and performance of H&R to differ materially from the forward-looking statements contained in this MD&A. All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements are made as of May 13, 2021 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 the financial position and its share of net income (loss) from H&R's 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.

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

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

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

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, 2020. 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 as well as excludes the two non-cash items noted above.

Same-Asset property operating income (cash basis) further excludes:

- Acquisitions, business combinations, dispositions, transfers of properties under development to investment properties and transfers from investment properties to properties under development during the 15-month period ended March 31, 2021 (collectively, "Transactions").

Management believes property operating income (cash basis) is useful for investors as it adjusts property operating income for non-cash items which allows investors to be understand the cash-on-cash performance of a property. Management believes that Same-Asset property operating income (cash basis) 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, both measures are 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. Furthermore, since H&R adjusts for actual tenant inducements paid, the amortization of tenant inducements per the REIT's Financial Statements and at the REIT's proportionate share is added back in order to only deduct the actual costs incurred by the REIT. Capital expenditures excluded and not deducted in the calculation of AFFO relate to capital expenditures which generate a new investment stream, 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 (as defined below) 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 (as defined below) 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 as well as 16 single tenant properties and one multi-tenant retail property in the United States. In addition, the Retail segment 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

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

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

Key programs and initiatives are outlined in the "Environmental, Social and Governance" section of the annual MD&A for the year ended December 31, 2020 as well as H&R's 2020 Annual Information Form, each of which were filed with the securities regulatory authorities in Canada and are available at www.sedar.com.

For H&R's Sustainability Policy and additional information about its Sustainability Committee and Report, visit H&R's website under Sustainability. The contents of the REIT's website, including the REIT's Sustainability Policy and Sustainability Report, are expressly not incorporated by reference into, and do not form part of, this MD&A.

SECTION II

FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars except per Unit amounts)	**March 31, 2021**	December 31, 2020	December 31, 2019
Total assets	**$13,181,199**	$13,355,444	$14,483,342
Debt to total assets per the REIT's Financial Statements[1]	**46.7%**	47.7%	44.4%
Debt to total assets at the REIT's proportionate share[1][2]	**50.3%**	51.1%	47.7%
Unitholders' equity	**6,155,920**	6,071,391	7,043,917
Units outstanding (in thousands of Units)	**286,892**	286,863	286,690
Unitholders' equity per Unit	**$21.46**	$21.16	$24.57
NAV per Unit[2][3]	**$22.24**	$21.93	$25.79
Unit price	**$14.26**	$13.29	$21.10

	Three months ended March 31		
	2021	2020	% Change
Rentals from investment properties	**$266,467**	$279,677	(4.7%)
Property operating income	**133,678**	140,636	(4.9%)
Same-Asset property operating income (cash basis)[2]	**168,161**	192,478	(12.6%)
Net income from equity accounted investments	**7,191**	10,877	(33.9%)
Fair value adjustment on real estate assets	**64,703**	(1,301,242)	105.0%
Net income (loss)	**159,539**	(1,019,821)	115.6%
FFO[2]	**119,690**	136,139	(12.1%)
AFFO[2]	**97,108**	120,117	(19.2%)
Weighted average number of basic Units for FFO[2]	**301,758**	301,595	0.1%
FFO per basic Unit[2]	**$0.40**	$0.45	(11.1%)
AFFO per basic Unit[2]	**$0.32**	$0.40	(20.0%)
Distributions per Unit	**$0.17**	$0.35	(51.4%)
Payout ratio as a % of FFO[2]	**43.5%**	76.5%	(33.0%)
Payout ratio as a % of AFFO[2]	**53.6%**	86.7%	(33.1%)
Interest coverage ratio[2]	**2.79**	3.25	(14.2%)

(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 23 for a detailed calculation of NAV per Unit.

The fair value adjustment on real estate assets is further discussed on page 6 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 March 31	**2021**	**99.7%**	**90.3%**	**95.8%**	**88.4%**	**93.6%**
	2020	99.3%	91.1%	98.9%	91.8%	95.2%
Occupancy – Same-Asset as at March 31[(1)]	**2021**	**99.7%**	**91.5%**	**96.6%**	**89.5%**	**94.5%**
	2020	99.3%	91.4%	98.9%	91.8%	95.2%
Average contractual rent per sq.ft. for the three months	**2021**	**$26.79**	**$20.30**	**$7.17**	**N/A**	**$18.40**
ended March 31-Canadian properties[(2)]	2020	$26.08	$20.28	$6.84	N/A	$17.90
Average contractual rent per sq.ft. for the three months	**2021**	**$35.91**	**$18.67**	**$4.06**	**$20.01**	**$21.01**
ended March 31-U.S. properties (USD)[(2)(3)]	2020	$32.18	$19.23	$4.08	$22.31	$22.01
Average remaining term to maturity of leases	**2021**	**12.2**	**6.8**	**6.2**	**N/A**	**9.5**
as at March 31 (in years)	2020	12.2	6.6	6.7	N/A	9.5
Average remaining term to maturity of mortgages	**2021**	**2.5**	**3.5**	**4.9**	**7.2**	**4.6**
payable as at March 31 (in years)	2020	3.2	4.3	5.7	8.3	5.6

(1) Same-Asset refers to those properties owned by H&R for the 15-month period ended March 31, 2021.
(2) Excludes properties sold in their respective year.
(3) Excludes River Landing which is currently in lease-up.

BUSINESS UPDATE

H&R is pleased to report stable and consistent Q1 2021 financial and operating results reflecting the quality of the REIT's portfolio and the strength of the REIT's balance sheet. While the extraordinary events that followed the arrival of the COVID-19 pandemic a year ago have required significant management attention to ensure the safety and security of the REIT's employees, tenants, properties and financial condition, management has continued to invest significant time and effort into the REIT's objectives of improving the quality and value of the REIT's portfolio and improving the profile of an investment in H&R units.

Fair Value Adjustment on Real Estate Assets

The financial results for the three months ended March 31, 2020 included fair value adjustments that were more significant than previous periods. These adjustments were a result of H&R's regular quarterly IFRS fair value process, and included the impact of COVID-19 reflecting two trends: (i) an acceleration of challenging conditions in the retail landscape impacting the valuation assumptions of retail properties; and (ii) energy sector volatility that may have impacted the credit quality of many companies operating in this industry and the related impacts on office property market fundamentals in markets with significant energy industry employment.

The financial results for the three months ended March 31, 2021 included significant fair value adjustments within the Retail segment. These adjustments were a result of H&R's regular quarterly IFRS fair value process and reflect improving conditions in the retail landscape resulting from stronger than expected rent collections and the overall economy expected to be reopen as part of the accelerating COVID-19 vaccine rollout. The reopening of the economy is expected to have a strong impact on H&R's enclosed shopping centres as customers begin to feel comfortable returning to in-person shopping.

Fair Value Adjustment on Real Estate Assets	Three months ended March 31	
(in thousands of Canadian dollars)	**2021**	2020
Operating Segment:		
Office	**($60,180)**	($668,904)
Retail	**95,475**	(656,358)
Industrial	**2,428**	6,891
Residential	**28,893**	19,600
Fair value adjustment on real estate assets per the REIT's proportionate share	**66,616**	(1,298,771)
Less: equity accounted investments	**(1,913)**	(2,471)
Fair value adjustment on real estate assets per the REIT's Financial Statements	**$64,703**	($1,301,242)

Bad Debt Expense

Bad debt expense is classified as an expense and is grouped together with other expenses in property operating costs. The following tables disclose H&R's bad debt expense including the impact of COVID-19.

Bad Debt Expense	Three months ended March 31		
(in thousands of Canadian dollars)	**2021**	2020	Change
Operating Segment:			
Office	**$139**	$13	$126
Retail	**426**	70	356
Industrial	**-**	-	-
Residential	**541**	251	290
Bad debt expense per the REIT's proportionate share	**1,106**	334	772
Less: equity accounted investments	**(114)**	13	(127)
Bad debt expense per the REIT's Financial Statements	**$992**	$347	$645

H&R has recorded a bad debt expense for the three months ended March 31, 2021 of $1.0 million compared to $3.2 million for Q4 2020 and $0.3 million for the three months ended March 31, 2020. Management is committed to working together with its tenants to ensure the vitality of H&R's shopping centres.

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 May 7, 2021, H&R's rent collections are as follows:

Tenant Type[1]	Share of Rent[2]	Q4 2020 Collection[2]	Q1 2021 Collection[2]	April 2021 Collection[2]
Office	44%	100%	99%	99%
Retail:				
Enclosed	*20%*	*87%*	*89%*	*81%*
Other	*14%*	*96%*	*96%*	*94%*
Total Retail	*34%*	*90%*	*92%*	*86%*
Residential	16%	97%	96%	96%
Industrial	6%	100%	100%	100%
Total	**100%**	**96%**	**96%**	**94%**

(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 includes monthly billings for base rent and property operating costs.

H&R's high-quality, long-term leased office portfolio delivered strong rent collection consistent with the profile of the tenant base, with 85.8% of revenues coming from investment-grade rated tenants. Rent collection was also stable 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.

Liquidity

As at March 31, 2021, H&R had ample liquidity including cash on hand of $54.5 million, $1.4 billion available under its unused lines of credit and an unencumbered property pool of approximately $3.9 billion.

SUMMARY OF SIGNIFICANT Q1 2021 ACTIVITY

Developments

H&R's active development pipeline in the United States currently comprises five residential developments with a total development budget of U.S. $241.6 million. As at March 31, 2021, U.S. $214.9 million had been spent on properties under development with U.S. $26.7 million of budgeted costs remaining to be spent. The REIT has U.S. $30.6 million available to be funded through secured construction facilities, in each case at the REIT's proportionate share.

The REIT's 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 339,000 square feet of retail space, approximately 125,000 square feet of office space and 528 residential rental units.

In Q4 2020, the retail and office portion of this project known as "River Landing Commercial", reached substantial completion and was transferred from properties under development to investment properties. Retail occupancy was 74.6% as at March 31, 2021, which includes the following major tenants: Publix Super Markets Inc., Hobby Lobby, Burlington, Ross Stores Inc., T.J. Maxx, Old Navy and Planet Fitness. Committed occupancy for retail space as at March 31, 2021 was 81.7% with the remaining retail lease-up expected to occur during 2021. The REIT is continuing negotiations with multiple parties on the office space.

In Q1 2021, the first of two residential towers at River Landing reached substantial completion and was transferred from properties under development to investment properties. As at March 31, 2021, 228 residential leases in the first tower have been entered into and occupancy was 62.9%, exceeding management's expectations on leasing velocity. The second residential tower, with the remaining 218 of 528 total residential rental units is expected to be transferred from properties under development to investment properties in Q2 2021. The total cost of the project is expected to be completed on budget at approximately U.S. $495.9 million of which U.S. $294.3 million was allocated to River Landing Commercial and the remaining U.S. $201.6 million has been allocated to the residential towers. As at March 31, 2021, U.S. $412.7 million has been included in investment properties and U.S. $80.6 million has been included in properties under development.

In January 2021, H&R acquired 12.4 acres of vacant land in Jersey City, NJ for U.S. $162.0 million and H&R received approximately U.S. $146.2 million for the repayment of the outstanding mortgage receivable secured by this land which bore interest at 10% per annum.

In January 2021, H&R acquired 4.2 acres of land in Dallas, TX for U.S. $9.1 million, which is expected to be developed into 352 residential rental units. The site is located adjacent to US Hwy 75 with proximity to downtown Dallas and other major thoroughfares including I-635 and the Dallas North Tollway.

Subsequent to March 31, 2021, H&R completed a 10-year lease with an industrial tenant to occupy 105,133 square feet at 34 Speirs Giffen Ave., Caledon, ON, a single-tenant property currently under development. The total development budget for this property is approximately $16.3 million and the expected yield on budgeted cost is approximately 7.0%. Occupancy is expected to commence in Q2 2022. This will be the second property constructed at H&R's industrial business park in Caledon which consists of approximately 144 acres.

For a complete list of H&R's current development projects, refer to pages 15 and 16 of this MD&A.

Properties in Lease-up

H&R currently has three properties in lease-up: River Landing, Phase 1 of the Hercules Project and Jackson Park.

As noted above, River Landing Commercial was transferred from properties under development to investment properties in Q4 2020 and in Q1 2021, the first of two residential towers at River Landing reached substantial completion and was transferred from properties under development to investment properties. Property operating income (cash basis) from River Landing for the three months ended March 31, 2021 was approximately U.S. $0.6 million. The pro forma unlevered yield on cost is expected to be approximately 5.0% based on a total budget of U.S. $495.9 million. As at March 31 2021, U.S. $412.7 million has been included in investment properties and U.S. $80.6 million has been included in properties under development.

Phase 1 of the Hercules Project in Hercules, CA reached substantial completion in Q4 2020 and was transferred from properties under development to investment properties. Property operating income (cash basis) for the three months ended March 31, 2021 was approximately U.S. $0.3 million at H&R's ownership interest. The pro forma unlevered yield on cost is expected to be approximately 5.4% based on a total budget of U.S. $25.7 million at H&R's ownership interest.

Jackson Park in Long Island City, NY has been negatively impacted by COVID-19 with higher vacancy and lower than average lease renewals. Property operating income (cash basis) for the three months ended March 31, 2021 was approximately U.S. $3.0 million at H&R's ownership interest. Prior to the onset of COVID-19, property operating income (cash basis) for Jackson Park for the three months ended March 31, 2020 was approximately U.S. $8.0 million, at H&R's ownership interest.

Office

In January 2021, H&R sold a 172,039 square foot single-tenanted property in Culver City, CA for approximately U.S. $165.0 million. Upon closing, the REIT repaid the two associated mortgages totalling U.S. $13.0 million, bearing interest at a weighted average rate of 5.7%. The REIT acquired this property in May 2004 for U.S. $60.3 million. This property was classified as held for sale as at December 31, 2020.

Same-Asset property operating income (cash basis) from office properties decreased by 10.0% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to Hess Corporation ("Hess") receiving a seven-month free rent period (commencing December 2020) as part of a lease extension and amending agreement completed in November 2020 for its premises in Houston, TX, the ("Hess Lease Amendment") under which Hess agreed to extend the term of its lease on approximately two-thirds of the building for an additional term of 10 years beyond its current expiry of June 30, 2026. Excluding the impact of Hess Lease Amendment, Same-Asset property operating income (cash basis) increased by 2.0%.

Industrial

In March 2021, H&R sold a 50% ownership interest in a 39,294 square foot multi-tenanted property in Richmond Hill, ON for approximately $9.6 million. This property was previously classified as held for sale as at December 31, 2020.

Same-Asset property operating income (cash basis) from industrial properties decreased by 2.3% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to the decrease in Same-Asset occupancy from 98.9% as at March 31, 2020 to 96.6% as at March 31, 2021.

Residential

Same-Asset property operating income (cash basis) from residential properties in U.S. dollars decreased by 18.6% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to Jackson Park in New York which has been negatively impacted by COVID-19 with higher vacancy and lower than average lease renewals. H&R believes this decline is temporary and expects operating fundamentals to improve in the second half of 2021. Further to this expectation, property operating income (cash basis) for Jackson Park increased by 7.7% from Q4 2020 to Q1 2021. 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 March 31, 2021 compared to the respective 2020 period, primarily due to an increase in revenue and the stabilization of various assets in the portfolio.

Retail

Same-Asset property operating income (cash basis) from retail properties decreased by approximately $8.3 million or 13.4% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to factors relating to the COVID-19 pandemic, including: (i) tenant closures; (ii) temporary lease amendments reducing rental rates in order to retain tenants who have faced challenging conditions; and (iii) lower percentage rent and specialty leasing earned due to government mandated closures.

Of the $8.3 million decline, enclosed shopping centres accounted for $6.6 million. Temporary rent reductions accounted for 34% of this decline, 28% related to rent reductions that remain in place until lease maturity, 11% related to lower percentage rents, specialty leasing and miscellaneous revenues (including a greater number of leases with percentage rent clauses, but lower tenant sales due to centre closures), and the remaining 27% was due to the impact of vacancies net of replacement leasing, much of which has yet to commence.

The remainder of the decline is split evenly between ECHO and the REIT's other retail properties. Notably, four single-tenant retail properties in the United States were vacated in June 2020, and to date only a portion of the space has been re-leased.

Funds from Operations and Adjusted Funds from Operations

FFO per Unit in Q1 2021 was $0.40 compared to $0.42 in Q4 2020 and $0.45 in Q1 2020. AFFO per Unit was $0.32 in Q1 2021 compared to $0.22 in Q4 2020 and $0.40 in Q1 2020. Distributions paid as a percentage of AFFO was 53.6% in Q1 2021, 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 March 31, 2021, debt to total assets was 46.7% compared to 47.7% as at December 31, 2020. The weighted average interest rate of H&R's debt as at March 31, 2021 was 3.6% with an average term to maturity of 3.6 years.

Mortgages:
As at March 31, 2021, H&R had $818.2 million in mortgage principal maturing during the remainder of 2021. Of this amount, H&R completed renewals for $237.5 million subsequent to March 31, 2021, $250.0 million is expected to be repaid from H&R's unused lines of credit and $0.9 million relates to final payments for mortgages fully amortized upon maturity.

Debentures:
In February 2021, H&R issued $300.0 million principal amount of 2.633% Series S Senior Debentures maturing February 19, 2027. The proceeds were used to repay the term loan noted below as well as lines of credit.

Unsecured Term Loans:
In March 2021, the REIT repaid its $200.0 million unsecured term loan. The REIT had 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, which settled in March 2021.

Lines of Credit:
In April 2020, at the onset of COVID-19, H&R bolstered its liquidity by securing a $500.0 million unsecured line of credit for a one-year term. With the vaccine rollout expanding throughout Canada and the United States and the Canadian economy slowly reopening, H&R believes it has sufficient liquidity to withstand the remainder of the pandemic and has therefore opted to reduce the amount of this facility. Therefore, in April 2021, the REIT secured a one-year extension on the unsecured line of credit from a syndicate of five Canadian banks for $300.0 million. The maturity date was extended to April 17, 2022.

In April 2021, the REIT secured a one-year extension on the H&R and CrestPSP revolving secured line of credit for $62.5 million at H&R's ownership interest. The maturity date was extended to April 30, 2022.

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:

	March 31, 2021	December 31, 2020
For each U.S. $1.00	**$1.26 CAD**	$1.27 CAD

(in thousands of Canadian dollars)	**March 31, 2021**	December 31, 2020
Assets		
Real estate assets		
Investment properties	**$11,324,408**	$11,149,130
Properties under development	**536,507**	449,849
	11,860,915	11,598,979
Equity accounted investments	**933,643**	955,468
Assets classified as held for sale	**-**	219,050
Other assets	**332,121**	519,088
Cash and cash equivalents	**54,520**	62,859
	$13,181,199	$13,355,444
Liabilities and Unitholders' Equity		
Liabilities		
Debt	**$6,153,395**	$6,368,316
Exchangeable units	**212,233**	197,796
Deferred tax liability	**342,106**	348,755
Accounts payable and accrued liabilities	**317,545**	369,186
	7,025,279	7,284,053
Unitholders' equity	**6,155,920**	6,071,391
	$13,181,199	$13,355,444

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, 2021	**$11,149,130**	$1,859,381	$13,008,511
Acquisitions, including transaction costs	**18**	489	507
Dispositions	**-**	-	-
Operating capital:			
Capital expenditures	**6,429**	578	7,007
Leasing expenses and tenant inducements	**3,502**	241	3,743
Redevelopment (including capitalized interest)	**8,505**	-	8,505
Jackson Park Brownfield Cleanup Program Tax Credit	**-**	(38,753)	(38,753)
Amortization of tenant inducements and straight-lining of contractual rents	**10,718**	(123)	10,595
Transfer of properties under development that have reached substantial completion to investment properties	**149,147**	9,533	158,680
Change in right-of-use asset[2]	**-**	(6,628)	(6,628)
Fair value adjustment on real estate assets	**57,487**	1,913	59,400
Change in foreign exchange	**(28,881)**	(14,633)	(43,514)
IFRIC 21-realty tax adjustment	**(31,647)**	(3,763)	(35,410)
Closing balance, March 31, 2021	**$11,324,408**	$1,808,235	$13,132,643

(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 March 31, 2021, the right-of-use asset in a leasehold interest of $33.1 million (included in equity accounted investments) was measured at an amount equal to the corresponding lease liability.

2021 Acquisitions:

H&R did not acquire any investment properties during Q1 2021.

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%
53 Yonge St., Toronto, ON	1913	Office	Nov 13, 2020	11,110	11.5	100%
Total				185,588	$33.5	

(1) Square feet and purchase price 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.

2021 Dispositions:

Property	Segment	Date Sold	Square Feet	Selling Price ($ Millions)[1]	Ownership Interest Sold
9050 W. Washington Blvd., Culver City, CA[1][2]	Office	Jan 25, 2021	172,039	$209.6	100%
2 East Beaver Creek, Richmond Hill, ON[2][3]	Industrial	Mar 1, 2021	39,294	9.6	50%
Total			211,333	$219.2	

(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, 2020.
(3) Square feet and selling price are based on the ownership interest disposed.

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.

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:

	March 31, 2021						
	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	$5,061	$7	$5,068	$ -	$ -	$ -	$5,068
Retail	3,180	-	3,180	836	4	840	4,020
Industrial	1,204	107	1,311	15	20	35	1,346
Residential	1,880	422	2,302	957	185	1,142	3,444
Total	$11,325	$536	$11,861	$1,808	$209	$2,017	$13,878

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

	March 31, 2021						
	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	$3,998	$107	$4,105	$ -	$20	$20	$4,125
Alberta	2,331	-	2,331	-	-	-	2,331
Other	1,206	7	1,213	-	-	-	1,213
Canada	7,535	114	7,649	-	20	20	7,669
United States	3,790	422	4,212	1,808	189	1,997	6,209
Total	$11,325	$536	$11,861	$1,808	$209	$2,017	$13,878

(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.

March 31, 2021	**Office**	**Retail**	**Industrial**	**Residential**	**Total**
Canada	**6.79%**	**7.01%**	**5.20%**	**-**	**6.62%**
United States	**5.89%**	**6.35%**	**6.75%**	**4.57%**	**5.33%**

December 31, 2020	Office	Retail	Industrial	Residential	Total
Canada	6.65%	7.25%	5.20%	-	6.63%
United States	5.74%	6.52%	6.69%	4.60%	5.37%

Canadian Properties under Development:

As at March 31, 2021			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:							
140 Speirs Giffen Ave., Caledon, ON[1]	100.0%	4.7	$14,358	$5,532	$8,826	6.0%	Q2 2022
34 Speirs Giffen Ave., Caledon, ON[1][2]	100.0%	4.9	16,342	6,163	10,179	7.0%	Q2 2022
		9.6	**30,700**	**11,695**	**19,005**		
Future Developments:							
Industrial Lands (Remaining lands), Caledon, ON[1]	100.0%	117.6	-	74,151	-		
7333 Mississauga Rd. N., Mississauga, ON[3]	100.0%	15.4	-	20,975	-		
Slate Dr., Mississauga, ON[4]	50.0%	24.6	-	19,952	-		
3791 Kingsway, Burnaby, BC[5]	50.0%	0.6	-	7,427	-		
Total		**167.8**	**$30,700**	**$134,200**	**$19,005**		

(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. The first building, 205 Speirs Giffen Ave., was substantially completed and transferred from properties under development to investment properties in Q4 2020. There are currently two buildings under construction totalling approximately 183,008 square feet.

(2) Subsequent to March 31, 2021, H&R completed a 10-year lease with an industrial tenant to occupy the entire property totalling 105,014 square feet.

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

(4) Expected to be developed into industrial property.

(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:

The REIT's 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 339,000 square feet of retail space, approximately 125,000 square feet of office space and 528 residential rental units. In Q4 2020, the commercial portion of this project reached substantial completion and was transferred from properties under development to investment properties. In Q1 2021, the first of two residential towers at River Landing reached substantial completion and was transferred from properties under development to investment properties. The second residential tower, with the remaining 218 of 528 total residential rental units is expected to be transferred from properties under development to investment properties in Q2 2021.

In January 2021, H&R acquired 12.4 acres of vacant land in Jersey City, NJ for U.S. $162.0 million and H&R received approximately U.S. $146.2 million for the repayment of the outstanding mortgage receivable secured by this land which bore interest at 10% per annum.

In January 2021, H&R acquired 4.2 acres of land in Dallas, TX for U.S. $9.1 million, which is expected to be developed into 352 residential rental units. The site is located adjacent to US Hwy 75 with proximity to downtown Dallas and other major thoroughfares including I-635 and the Dallas North Tollway.

In March 2021, H&R sold a office property under development in Dallas, TX for U.S. $1.2 million. Upon closing, the REIT issued a vendor take-back mortgage for U.S. $1.0 million, maturing March 31, 2023, bearing interest at 4.0% for the first year and 5.0% for the second year.

As at March 31, 2021			**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 - Residential Tower 2, Miami, FL	100.0%	1.1	$83,242	$80,560	$2,682	$ -	4.4%	Q2 2021
Shoreline, Long Beach, CA[1]	31.2%	0.9	71,097	55,576	15,521	15,772	6.2%	Q1 2022
Hercules Project (Phase 2), Hercules, CA[2]	31.7%	2.8	31,186	25,489	5,697	9,574	6.0%	Q4 2021
The Pearl, Austin, TX[3]	33.3%	5.0	24,201	22,625	1,576	1,829	6.2%	Q4 2021
Esterra Park, Seattle, WA[4]	33.3%	1.1	31,859	30,646	1,213	3,405	6.0%	Q4 2021
		10.9	**241,585**	**214,896**	**26,689**	**30,580**		
Future Developments:								
Jersey City Lands, Jersey City, NJ	100.0%	12.4	-	163,335	-	-		
Other Remaining Future Developments[5]		99.0	-	103,476	-	-		
Total (excluding ECHO)		**122.3**	**$241,585**	**$481,707**	**$26,689**	**$30,580**		

(1) 35-storey residential tower consisting of 315 luxury residential rental units and 6,450 square feet of retail space.

(2) Total project spans 38.4 acres. Construction commenced in June 2018 on Phase 1 of this project which was substantially completed and transferred to investment properties in Q4 2020. 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 17 of this MD&A for further information.

(3) 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.

(4) Seven-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.

(5) Consists of seven separate parcels of land in the United States totalling 99.0 acres. H&R has a 31.7% interest in one of the parcels amounting to U.S. $12.2 million at H&R's ownership interest. H&R is the sole owner of the remaining six parcels.

Equity Accounted Investments:

(in thousands of Canadian dollars)	Jackson Park	ECHO	One U.S. Industrial Property	Hercules Project	The Pearl	Esterra Park	Shoreline	Slate	Other[1]	**Total[2]**
Investment properties	$922,334	$835,929	$14,953	$35,019	$ -	$ -	$ -	$ -	$ -	**$1,808,235**
Properties under development	-	4,445	-	47,546	28,508	38,613	70,026	19,952	-	**209,090**
Other assets	2,097	14,248	89	248	10	31	-	-	6	**16,729**
Cash and cash equivalents	34,747	9,147	718	1,036	686	239	317	928	239	**48,057**
Debt	(622,021)	(325,038)	-	(40,893)	(17,813)	(23,640)	(31,969)	-	-	**(1,061,374)**
Lease liability	-	(33,140)	-	-	-	-	-	-	-	**(33,140)**
Other liabilities	(7,163)	(32,125)	(229)	(5,814)	(1,537)	(2,017)	(3,694)	-	(1,375)	**(53,954)**
March 31, 2021	$329,994	$473,466	$15,531	$37,142	$9,854	$13,226	$34,680	$20,880	($1,130)	**$933,643**
December 31, 2020	$353,903	$471,337	$15,596	$37,256	$9,297	$13,332	$34,956	$20,922	($1,131)	$955,468

(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.

Jackson Park

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

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 February 28, 2021 and November 30, 2020, respectively.

As at March 31, 2021, H&R's interest in ECHO consists of 238 investment properties totalling approximately 2.9 million square feet and five properties under development. Giant Eagle, Inc., a supermarket chain in the United States is ECHO's largest tenant with 196 locations encompassing approximately 1.6 million square feet at H&R's ownership interest with an average lease term to maturity of 10.4 years. Giant Eagle represents approximately 56.0% of revenue earned by ECHO.

U.S. Industrial Properties

As at March 31, 2021, 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, 2020 - one property 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.

Hercules Project

H&R owns 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. This waterfront, multi-phase, master-planned, in-fill mixed-use development surrounds a future intermodal transit centre, including train and ferry service, and is adjacent to an 11-acre future waterfront regional park. The initial investment to purchase the land was approximately U.S. $10.0 million, at H&R's ownership interest. As at March 31, 2021, H&R's equity investment was approximately U.S. $27.6 million.

Phase 1 of the Hercules Project, known as "The Exchange at Bayfront", consists of 172 residential rental units, including lofts and townhomes and 13,762 square feet of ground level retail space. This property was substantially completed and 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. $31.2 million. Construction financing of approximately U.S. $20.7 million was secured in March 2019, and as at March 31, 2021, U.S. $11.1 million had been drawn and U.S. $9.6 million was available to be drawn.

The remaining land parcels totalling 33.4 acres are secured against a U.S. $3.9 million land loan at H&R's ownership interest. Future phases will be announced as further development information becomes available.

The Pearl

H&R owns 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. As at March 31, 2021, H&R's equity investment was approximately U.S. $7.8 million. The total budget for this project is approximately U.S. $24.2 million. Construction financing of U.S. $16.0 million was secured in October 2018, and as at March 31, 2021, U.S. $14.2 million had been drawn and U.S. $1.8 million was available to be drawn. All figures have been stated at H&R's ownership interest.

Esterra Park

H&R owns 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. As at March 31, 2021, H&R's equity investment was approximately U.S. $10.5 million. The total budget for this project is approximately U.S. $31.9 million. Construction financing of U.S. $22.2 million was secured in October 2018, and as at March 31, 2021, U.S. $18.8 million had been drawn and U.S. $3.4 million was available to be drawn. All figures have been stated at H&R's ownership interest.

Shoreline

H&R owns 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. As at March 31, 2021, H&R's equity investment was approximately U.S. $27.5 million. The total budget for this project is approximately U.S. $71.1 million. Construction financing of U.S. $41.1 million was secured in December 2018, and as at March 31, 2021, U.S. $25.3 million had been drawn, and U.S. $15.8 million was available to be drawn. All figures have been stated at H&R's ownership interest.

Slate Drive

In November 2020, H&R acquired a 50% interest in 24.6 acres of land in Mississauga, ON which is expected to be developed into industrial property. The REIT's partner contributed the land valued at approximately $36.9 million, and H&R contributed $2.1 million with the balance of capital to be contributed as development costs are incurred.

Assets and Liabilities Classified as Held for Sale

As at March 31, 2021, H&R had no properties classified as held for sale. As at December 31, 2020, H&R had one U.S. office property and a 50% ownership interest in one industrial property with an aggregate fair value of $219.1 million classified as held for sale.

Other Assets

(in thousands of Canadian dollars)	**March 31, 2021**	December 31, 2020
Mortgages receivable	**$249,263**	$425,486
Prepaid expenses and sundry assets	**45,008**	63,058
Accounts receivable - net of provision for expected credit loss of $14,377 (2020 - $15,135)	**18,518**	19,618
Restricted cash	**15,145**	7,732
Derivative instruments	**4,187**	3,194
	$332,121	$519,088

Mortgages receivable decreased by $176.2 million from approximately $425.5 million at as at December 31, 2020 to approximately $249.3 million as at March 31, 2021, primarily due to the January 2021 repayment of a U.S. $146.2 million mortgage receivable secured against 12.4 acres of vacant land in Jersey City, NJ in January 2021 of which U.S. $140.1 million was outstanding as at December 31, 2020.

As at March 31, 2021, accounts receivable amounted to 1.7% of annual rentals from investment properties compared to 1.8% as at December 31, 2020. Refer to page 7 of this MD&A for further discussion on H&R's bad debt expense.

Restricted cash increased by $7.4 million from approximately $7.7 million as at December 31, 2020 to approximately $15.1 million as at March 31, 2021, primarily due to an increase of $8.6 million relating to contractual mortgage interest due in June 2021.

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

LIABILITIES AND UNITHOLDERS' EQUITY

	March 31, 2021	December 31, 2020
Debt to total assets per the REIT's Financial Statements(1)	**46.7%**	47.7%
Debt to total assets at the REIT's proportionate share(1)(2)	**50.3%**	51.1%
Unencumbered assets(3) (in thousands of Canadian dollars)	**$3,911,756**	$3,666,464
Unsecured debt(3) (in thousands of Canadian dollars)	**$2,369,915**	$2,470,914
Unencumbered asset to unsecured debt coverage ratio(3)	**1.65**	1.48
Interest coverage ratio(2)	**2.79**	3.12
Weighted average interest rate of debt(1)	**3.6%**	3.6%
Weighted average term to maturity of debt (in years)(1)	**3.6**	3.5
Weighted average interest rate of debt at the REIT's proportionate share(1)(2)	**3.6%**	3.6%
Weighted average term to maturity of debt (in years) at the REIT's proportionate share(1)(2)	**4.1**	4.0

(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)	**March 31, 2021**	December 31, 2020
Mortgages payable	**$3,606,760**	$3,623,652
Debentures payable	**1,867,979**	1,568,817
Unsecured term loans	**500,000**	688,029
Lines of credit	**178,656**	487,818
	$6,153,395	$6,368,316

(in thousands of Canadian dollars)	Mortgages Payable	Debentures Payable	Unsecured Term Loans	Lines of Credit	Total
Opening balance, January 1, 2021	$3,623,652	$1,568,817	$688,029	$487,818	$6,368,316
Scheduled amortization payments	(27,893)	-	-	-	(27,893)
Debt repayments and redemptions	(16,370)	-	(186,629)	($305,862)	(508,861)
New debt	37,083	298,622	-	-	335,705
Effective interest rate accretion	821	540	-	-	1,361
Change in foreign exchange	(10,533)	-	(1,400)	(3,300)	(15,233)
Closing balance, March 31, 2021	$3,606,760	$1,867,979	$500,000	$178,656	$6,153,395

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
2021[(1)(2)]	$75,058	$818,155	$893,213	24.7	3.9%
2022	64,941	580,545	645,486	17.8	3.7%
2023	57,387	391,614	449,001	12.4	3.9%
2024	51,500	42,826	94,326	2.6	3.2%
2025	43,009	104,231	147,240	4.1	3.9%
Thereafter			1,390,278	38.4	
			3,619,544	100%	
Financing costs and mark-to-market adjustments arising on acquisitions[(3)]			(12,784)		
Total balance outstanding as at March 31, 2021			$3,606,760		

(1) For the balance of the year.
(2) Subsequent to March 31, 2021, H&R renewed $237.5 million of mortgages which were previously maturing in 2021 for a one-year term.
(3) 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 March 31, 2021 bear interest at a weighted average rate of 4.0% (December 31, 2020 - 4.0%) and mature between 2021 and 2032 (December 31, 2020 – maturing between 2021 and 2032). The weighted average term to maturity of the REIT's mortgages is 3.8 years (December 31, 2020 - 4.0 years). For a further discussion of liquidity refer to the "Funding of Future Commitments" of this MD&A.

Debentures Payable (in thousands of Canadian Dollars)	**Maturity**	**Contractual Interest Rate**	**Effective Interest Rate**	**Principal Amount**	**March 31, 2021** **Carrying Value**	December 31, 2020 Carrying Value
Senior Debentures						
Series L Senior Debentures	May 6, 2022	2.92%	3.11%	$325,000	**$323,981**	$323,776
Series O Senior Debentures	January 23, 2023	3.42%	3.44%	250,000	**249,434**	249,360
Series N Senior Debentures	January 30, 2024	3.37%	3.45%	350,000	**348,852**	348,758
Series Q Senior Debentures	June 16, 2025	4.07%	4.19%	400,000	**398,199**	398,105
Series R Senior Debentures	June 2, 2026	2.91%	3.00%	250,000	**248,868**	248,818
Series S Senior Debentures	February 19, 2027	2.63%	2.72%	300,000	**298,645**	-
		3.27%	3.37%	$1,875,000	**$1,867,979**	$1,568,817

In February 2021, H&R issued $300.0 million principal amount of 2.633% Series S Senior Debentures maturing February 19, 2027.

Unsecured Term Loans (in thousands of Canadian Dollars)	Maturity Date	**March 31, 2021**	December 31, 2020
H&R unsecured term loan #1[(1)]	March 17, 2021	**$ -**	$188,029
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
		$500,000	$688,029

(1) The total facility was repaid in March 2021. 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, which settled in March 2021.

(2) In November 2020, the interest rate swap was amended to fix the interest rate at 3.17% per annum and the maturity date was extended to May 7, 2030. Previously, the interest rate was fixed at 3.33% per annum with a maturity date of 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[2]	$500,000	$ -	$ -	$500,000
H&R revolving unsecured line of credit #2	September 20, 2022	150,000	-	-	150,000
H&R revolving unsecured line of credit #3	January 31, 2023	200,000	-	-	200,000
H&R revolving unsecured line of credit #4	September 20, 2023	350,000	(1,936)	(1,985)	346,079
H&R revolving unsecured letter of credit facility		60,000	-	(29,534)	30,466
Sub-total		1,260,000	(1,936)	(31,519)	1,226,545
Revolving secured operating lines of credit[1]					
H&R and CrestPSP revolving secured line of credit	April 30, 2021[3]	62,500	(51,500)	(105)	10,895
Primaris revolving secured line of credit	December 31, 2021	300,000	(125,220)	-	174,780
Sub-total		362,500	(176,720)	(105)	185,675
March 31, 2021		**$1,622,500**	**($178,656)**	**($31,624)**	**$1,412,220**
December 31, 2020		$1,622,500	($487,818)	($31,797)	$1,102,885

(1) Secured by certain investment properties.
(2) In April 2021, the REIT secured a one-year extension on the unsecured line of credit from a syndicate of five Canadian banks for $300.0 million. The maturity date was extended to April 17, 2022.
(3) In April 2021, the REIT secured a one-year extension on the H&R and CrestPSP revolving secured line of credit for $62.5 million. The maturity date was extended to April 30, 2022.

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 March 31, 2021	**14,883,065**	**$14.26**	**$212,233**
As at December 31, 2020	14,883,065	$13.29	$197,796

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 2021 (2020 - 23.5%).

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)	**March 31, 2021**	December 31, 2020
Deferred tax assets:		
Net operating losses	**$81.1**	$73.3
Accounts payable and accrued liabilities	**0.5**	0.7
Other assets	**1.1**	2.8
	82.7	76.8
Deferred liabilities:		
Investment properties	**303.7**	303.0
Equity accounted investments	**121.1**	122.6
	424.8	425.6
Deferred tax liability	**($342.1)**	($348.8)

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 $6.7 million from $348.8 million as at December 31, 2020 to $342.1 million as at March 31, 2021 primarily due to the weakening of the U.S. dollar.

Unitholders' Equity

Unitholders' equity increased by $84.5 million from approximately $6.1 billion as at December 31, 2020 to approximately $6.2 billion as at March 31, 2021. The increase is primarily due to net income, partially offset by distributions paid to unitholders and other comprehensive loss.

Unitholders' Equity per Unit and NAV per Unit	**March 31, 2021**	December 31, 2020
Unitholders' equity	**$6,155,920**	$6,071,391
Exchangeable units	**212,233**	197,796
Deferred tax liability	**342,106**	348,755
Total	**$6,710,259**	$6,617,942
Units outstanding (in thousands of Units)	**286,892**	286,863
Exchangeable units outstanding (in thousands of Units)	**14,883**	14,883
Total (in thousands of Units)	**301,775**	301,746
Unitholders' equity per Unit[(1)]	**$21.46**	$21.16
NAV per Unit[(2)]	**$22.24**	$21.93
Unit Price	**$14.26**	$13.29

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

RESULTS OF OPERATIONS

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

	Three months ended March 31	
	2021	2020
For each U.S. $1.00	**$1.27 CAD**	$1.34 CAD

	Three months ended March 31	
(in thousands of Canadian dollars)	**2021**	2020
Property operating income:		
Rentals from investment properties	**$266,467**	$279,677
Property operating costs	**(132,789)**	(139,041)
	133,678	140,636
Net income from equity accounted investments	**7,191**	10,877
Finance costs - operations	**(59,491)**	(59,043)
Finance income	**5,874**	8,175
Trust (expenses) recoveries	**(5,319)**	10,461
Fair value adjustment on financial instruments	**13,126**	145,503
Fair value adjustment on real estate assets	**64,703**	(1,301,242)
Loss on sale of real estate assets	**(3,917)**	(1,901)
Net income (loss) before income taxes	**155,845**	(1,046,534)
Income tax recovery	**3,694**	26,713
Net income (loss)	**159,539**	(1,019,821)
Other comprehensive income (loss):		
Items that are or may be reclassified subsequently to net income (loss)	**(25,913)**	236,201
Total comprehensive income (loss) attributable to unitholders	**$133,626**	($783,620)

Property operating income decreased by $7.0 million for the three months ended March 31, 2021 compared to the respective 2020 period primarily due to the Retail segment, which decreased by $6.6 million due to factors relating to the COVID-19 pandemic, including: (i) tenant closures mainly affecting enclosed shopping centres; (ii) temporary lease amendments reducing rental rates in order to retain tenants who have faced challenging conditions; and (iii) lower percentage rent and specialty leasing earned due to government mandated closures primarily affecting enclosed shopping centres. In addition, four single-tenant retail properties in the United States were vacated in June 2020, and to date only a portion of the space has been re-leased at lower rental rates.

Net income (loss) before income taxes increased by approximately $1.2 billion for the three months ended March 31, 2021 compared to the respective 2020 period primarily due to fair value adjustments of real estate assets. This is primarily due to negative fair value adjustments taken in Q1 2020 during the onset of COVID-19 as a result of challenging conditions in the retail landscape and energy sector volatility affecting office property market fundamentals. This was partially offset by fair value adjustments on financial instruments.

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 15-month period ended March 31, 2021. It excludes acquisitions, business combinations, dispositions, transfers of properties under development to investment properties and transfers from investment properties to properties under development during the 15-month period ended March 31, 2021 (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 March 31		
(in thousands of Canadian dollars)	**2021**	2020	Change
Rentals	**$266,467**	$279,677	($13,210)
Property operating costs (excluding bad debt expense)	**(131,797)**	(138,694)	6,897
Property operating income (excluding bad debt expense)	**134,670**	140,983	(6,313)
Bad debt expense	**(992)**	(347)	(645)
Property operating income	**133,678**	140,636	(6,958)
Adjusted for:			
Proportionate share of property operating income from equity accounted investments[1]	**14,291**	21,380	(7,089)
Straight-lining of contractual rent at the REIT's proportionate share[1]	**(11,348)**	(1,382)	(9,966)
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share[1]	**35,410**	35,843	(433)
Property operating income (cash basis) from Transactions at the REIT's proportionate share[1]	**(3,870)**	(3,999)	129
Same-Asset property operating income (cash basis)[2]	**$168,161**	$192,478	($24,317)

(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 $7.0 million for the three months ended March 31, 2021 compared to the respective 2020 period primarily due to the Retail segment, which decreased by $6.6 million due to factors relating to the COVID-19 pandemic, including: (i) tenant closures mainly affecting enclosed shopping centres; (ii) temporary lease amendments reducing rental rates in order to retain tenants who have faced challenging conditions; and (iii) lower percentage rent and specialty leasing earned due to government mandated closures primarily affecting enclosed shopping centres. In addition, four single-tenant retail properties in the United States were vacated in June 2020, and to date only a portion of the space has been re-leased at lower rental rates.

Property operating income from equity accounted investments for the three months ended March 31, 2021 compared to the respective 2020 period decreased by $7.1 million primarily due to Jackson Park in New York which has been negatively impacted by COVID-19 with higher vacancy and lower than average lease renewals. H&R believes this decline is temporary and expects operating fundamentals to improve in the second half of 2021. Further to this expectation, property operating income (cash basis) for Jackson Park increased by 7.7% from Q4 2020 to Q1 2021.

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 28 properties throughout Canada and 4 properties in select markets in the United States, aggregating 10.6 million square feet, at H&R's ownership interest, with an average lease term to maturity of 12.2 years as at March 31, 2021. The Office portfolio is leased on a long-term basis to creditworthy tenants, with 85.8% of office revenue from tenants with investment grade ratings. With long average lease terms resulting in less than 1.2% of square feet expiring in 2021 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 properties and one multi-tenant retail property in the United States. In addition, the Retail segment 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 255 properties in the United States comprising 13.7 million square feet, at H&R's ownership interest, with an average lease term to maturity of 6.8 years as at March 31, 2021.

The Industrial segment consists of 83 industrial properties throughout Canada and 3 properties in the United States comprising 9.2 million square feet, at H&R's ownership interest, with an average lease term to maturity of 6.2 years as at March 31, 2021.

The Residential segment consists of 24 residential properties in select markets in the United States comprising 8,141 residential rental units, at H&R's ownership interest, as at March 31, 2021. 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 March 31			As at March 31	
(in thousands of Canadian dollars)	**2021**	2020	% Change	**2021**	2020
Operating Segment:					
Office[1]	**$78,537**	$78,204	0.4%	**99.7%**	99.3%
Retail	**49,849**	57,076	(12.7%)	**90.3%**	91.1%
Industrial	**15,028**	15,111	(0.5%)	**95.8%**	98.9%
Residential	**4,555**	11,625	(60.8%)	**88.4%**	91.8%
The REIT's proportionate share	**147,969**	162,016	(8.7%)	**93.6%**	95.2%
Less: equity accounted investments	**(14,291)**	(21,380)	(33.2%)	**89.4%**	96.8%
The REIT's Financial Statements	**$133,678**	$140,636	(4.9%)	**94.1%**	95.0%
Geographic Location:					
Canada[2]	**$120,930**	$125,785	(3.9%)	**94.9%**	95.5%
United States[2]	**27,039**	36,231	(25.4%)	**91.0%**	94.7%
The REIT's proportionate share	**147,969**	162,016	(8.7%)	**93.6%**	95.2%
Less: equity accounted investments	**(14,291)**	(21,380)	(33.2%)	**89.4%**	96.8%
The REIT's Financial Statements	**$133,678**	$140,636	(4.9%)	**94.1%**	95.0%

(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 March 31, 2021 was $1.27 for each U.S. $1.00 (March 31, 2020 - $1.34). Property operating income across all operating segments was negatively impacted by the weakening of the U.S. dollar for the three months ended March 31, 2021. The following explanations for changes in property operating income are in addition to the impact of foreign exchange.

Property operating income from retail properties decreased by 12.7% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to due to factors relating to the COVID-19 pandemic, including: (i) tenant closures mainly affecting enclosed shopping centres; (ii) temporary lease amendments reducing rental rates in order to retain tenants who have faced challenging conditions; and (iii) lower percentage rent and specialty leasing earned due to government mandated closures primarily affecting enclosed shopping centres. In addition, four single-tenant retail properties in the United States were vacated in June 2020, and to date only a portion of the space has been re-leased at lower rental rates.

Property operating income from residential properties decreased by 60.8% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to Jackson Park in New York, which has been negatively impacted by COVID-19 with higher vacancy and lower than average lease renewals, as well as properties sold. H&R believes Jackson Park's decline is temporary and expects operating fundamentals to improve in the second half of 2021. Further to this expectation, property operating income (cash basis) for Jackson Park increased by 7.7% from Q4 2020 to Q1 2021. Excluding Jackson Park as well as the non-cash impact of IFRIC 21, property operating income from residential properties decreased by 0.2% for the three months ended March 31, 2021 compared to the respective 2020 period.

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 March 31			As at March 31	
(in thousands of Canadian dollars)	**2021**	2020	% Change	**2021**	2020
Operating Segment:					
Office[2]	**$77,091**	$85,668	(10.0%)	**99.7%**	99.3%
Retail	**53,166**	61,427	(13.4%)	**91.5%**	91.4%
Industrial	**13,794**	14,120	(2.3%)	**96.6%**	98.9%
Residential	**24,110**	31,263	(22.9%)	**89.5%**	91.8%
The REIT's proportionate share (page 25)	**$168,161**	$192,478	(12.6%)	**94.5%**	95.2%
Geographic Location:					
Ontario[3]	**$51,016**	$53,629	(4.9%)	**96.1%**	97.0%
Alberta	**48,448**	50,114	(3.3%)	**92.6%**	94.0%
Other Canada	**17,668**	18,912	(6.6%)	**96.9%**	94.6%
Total – Canada	**117,132**	122,655	(4.5%)	**95.2%**	95.6%
United States[3]	**51,029**	69,823	(26.9%)	**92.9%**	94.5%
The REIT's proportionate share (page 25)	**$168,161**	$192,478	(12.6%)	**94.5%**	95.2%
United States in U.S. dollars:					
Office[2]	**$8,581**	$15,513	(44.7%)	**100.0%**	100.0%
Retail	**12,049**	12,699	(5.1%)	**95.8%**	96.7%
Industrial	**566**	562	0.7%	**100.0%**	100.0%
Residential	**18,984**	23,331	(18.6%)	**89.5%**	91.8%
U.S. total in U.S. dollars	**$40,180**	$52,105	(22.9%)	**92.9%**	94.5%

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

The average exchange rate for the three months ended March 31, 2021 was $1.27 for each U.S. $1.00 (March 31, 2020 - $1.34). Same-Asset property operating income (cash basis) across all operating segments was negatively impacted by the weakening of the U.S. dollar for the three months ended March 31, 2021 compared to the respective 2020 period. The following explanations for changes in Same-Asset property operating income (cash basis) are in addition to the impact of foreign exchange.

Same-Asset property operating income (cash basis) from office properties decreased by 10.0% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to Hess receiving a seven-month free rent period (commencing December 2020) as part of a lease extension and amending agreement completed in November 2020 for its premises in Houston, TX, under which Hess agreed to extend the term of its lease on approximately two-thirds of the building for an additional term of 10 years beyond its current expiry of June 30, 2026. Excluding the impact of the Hess Lease Amendment, Same-Asset property operating income (cash basis) increased by 2.0%.

Same-Asset property operating income (cash basis) from retail properties decreased by 13.4% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to factors relating to the COVID-19 pandemic, including: (i) tenant closures mainly affecting enclosed shopping centres; (ii) temporary lease amendments reducing rental rates in order to retain tenants who have faced challenging conditions; and (iii) lower percentage rent and specialty leasing earned due to government mandated closures primarily affecting enclosed shopping centres. In addition, four single-tenant retail properties in the United States were vacated in June 2020, and to date only a portion of the space has been re-leased at lower rental rates.

Same-Asset property operating income (cash basis) from industrial properties decreased by 2.3% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to the decrease in same-asset occupancy from 98.9% as at March 31, 2020 to 96.6% as at March 31, 2021.

Same-Asset property operating income (cash basis) from residential properties in U.S. dollars decreased by 18.6% for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to Jackson Park in New York which has been negatively impacted by COVID-19 with higher vacancy and lower than average lease renewals. H&R believes this decline is temporary and expects operating fundamentals to improve in the second half of 2021. Further to this expectation, property operating income (cash basis) for Jackson Park increased by 7.7% from Q4 2020 to Q1 2021. 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 March 31, 2021 compared to the respective 2020 period, primarily due to an increase in revenue and the stabilization of various assets in the portfolio.

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

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

	Three Months ended March 31	
(in thousands of Canadian dollars)	**2021**	2020
Rentals from investment properties	**$25,756**	$32,510
Property operating costs	**(11,465)**	(11,130)
Property operating income	**14,291**	21,380
Net income from equity accounted investments	**76**	76
Finance cost - operations	**(9,221)**	(9,979)
Finance income	**52**	110
Trust expenses	**(673)**	(899)
Fair value adjustment on financial instruments	**999**	(1,091)
Fair value adjustment on real estate assets	**1,913**	2,471
Gain (loss) on sale of real estate assets	**3**	(911)
Income tax (expense) recovery	**(13)**	10
Non-controlling interest	**(236)**	(290)
Net income from equity accounted investments	**7,191**	10,877
Realty taxes in accordance with IFRIC 21	**3,763**	3,517
Fair value adjustments on financial instruments and real estate assets	**(2,912)**	(1,380)
(Gain) loss on sale of real estate assets	**(3)**	911
Deferred income tax expense	**-**	10
Incremental leasing costs	**219**	165
Notional interest capitalization[2]	**644**	702
FFO from equity accounted investments	**8,902**	14,802
Straight-lining of contractual rent	**(143)**	509
Rent amortization of tenant inducements	**266**	282
Capital expenditures	**(578)**	(310)
Leasing expenses and tenant inducements	**(241)**	(253)
Incremental leasing costs	**(219)**	(165)
AFFO from equity accounted investments	**$7,987**	$14,865

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

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

Property operating income for the three months ended March 31, 2021 compared to the respective 2020 period decreased by $7.1 million primarily due to Jackson Park in New York which has been negatively impacted by COVID-19 with higher vacancy and lower than average lease renewals. H&R believes this decline is temporary and expects operating fundamentals to improve in the second half of 2021. Further to this expectation, property operating income (cash basis) for Jackson Park increased by 7.7% from Q4 2020 to Q1 2021.

Net income from equity accounted investments for the three months ended March 31, 2021 compared to the respective 2020 period decreased by $3.7 million primarily due to Jackson Park noted above partially offset by fair value adjustments on financial instruments, gain (loss) on sale of real estate assets and lower finance costs – operations.

FFO from equity accounted investments for the three months ended March 31, 2021 compared to the respective 2020 period decreased by $5.9 million primarily due to Jackson Park noted above, partially offset by lower finance costs – operations.

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 March 31		
(in thousands of Canadian dollars)	**2021**	2020	Change
Finance costs – operations:			
Contractual interest on mortgages payable	**($35,709)**	($37,515)	$1,806
Contractual interest on debentures payable	**(14,008)**	(9,479)	(4,529)
Contractual interest on unsecured term loans	**(5,259)**	(5,749)	490
Bank interest and charges on lines of credit	**(2,223)**	(5,710)	3,487
Effective interest rate accretion	**(1,336)**	(886)	(450)
Exchangeable unit distributions	**(2,567)**	(5,284)	2,717
	(61,102)	(64,623)	3,521
Capitalized interest	**1,611**	5,580	(3,969)
	(59,491)	(59,043)	(448)
Finance income	**5,874**	8,175	(2,301)
Fair value adjustment on financial instruments	**13,126**	145,503	(132,377)
	($40,491)	$94,635	($135,126)

The decrease in contractual interest on mortgages payable of $1.8 million for the three months ended March 31, 2021 compared to the respective 2020 period is primarily due to the weakening of the U.S. dollar as well as a higher proportion of principal payments being repaid.

The increase in contractual interest on debentures payable of $4.5 million for the three months ended March 31, 2021 compared to the respective 2020 period is primarily due to the issuance of new debentures totalling $945.3 million, partially offset by the repayment of debentures totalling $337.5 million throughout 2020 and Q1 2021.

The decrease in contractual interest on unsecured term loans of $0.5 million for the three months ended March 31, 2021 compared to the respective 2020 period is primarily due to H&R repaying the $200.0 million unsecured term loan in March 2021.

The decrease in bank interest and charges on lines of credit of $3.5 million for the three months ended March 31, 2021 compared to the respective 2020 period is primarily due to H&R repaying lines of credit with the proceeds from debenture issuances as well as lower variable interest rates on borrowings.

The decrease in exchangeable unit distributions of $2.7 million for the three months ended March 31, 2021 compared to the respective 2020 period is primarily due to H&R decreasing its monthly distributions from $0.115 per Unit to $0.0575 per Unit effective May 2020.

The decrease in capitalized interest of $4.0 million for the three months ended March 31, 2021 compared to the respective 2020 period is primarily due to River Landing, whereby substantial completion was achieved on the commercial portion in Q4 2020 and on the first of two residential towers in Q1 2021.

The decrease in finance income of $2.3 million for the three months ended March 31, 2021 compared to the respective 2020 period is primarily due to the repayment of a U.S. $146.2 million mortgage receivable secured against 12.4 acres of vacant land in Jersey City, NJ in January 2021.

The fair value adjustment on financial instruments of $13.1 million for the three months ended March 31, 2021 is primarily due to the unrealized gain on derivative instruments of $28.1 million which is further described on page 37 of this MD&A, partially offset by a loss on fair value of exchangeable units of ($14.4 million) which are fair valued at the end of each reporting period based on the quoted price of Units on the TSX. The loss on fair value of exchangeable units of ($14.4 million) for the three months ended March 31, 2021 is due to H&R's Unit price increasing from $13.29 as at December 31, 2020 to $14.26 as

at March 31, 2021. Included in the fair value adjustment on financial instruments for the three months ended March 31, 2020 is a gain on fair value of exchangeable units of $186.4 million, which is due to H&R's Unit price decreasing from $21.10 as at December 31, 2019 to $8.93 as at March 31, 2020.

Trust (Expenses) Recoveries

	Three months ended March 31		
(in thousands of Canadian dollars)	**2021**	2020	Change
Other expenses	**($4,541)**	($5,975)	$1,434
Unit-based compensation recovery (expense)	**(778)**	16,436	(17,214)
Trust (expenses) recoveries	**($5,319)**	$10,461	($15,780)

Other expenses decreased by $1.4 million for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to costs incurred for abandoned transactions as a result of COVID-19 in 2020, as well as higher third-party fees earned partially offset by the continued expansion of Lantower Residential.

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* ("IFRS 2") and as a result, are measured at each reporting period and settlement date at their fair value as defined by IFRS 2 based on the quoted price of Units on the TSX. The fair value adjustment to unit-based compensation was ($0.4 million) for the three months ended March 31, 2021. The fair value adjustment to unit-based compensation was a recovery of $17.7 million for the three months ended March 31, 2020 which was due to H&R's Unit price decreasing from $21.10 as at December 31, 2019 to $8.93 as at March 31, 2020.

Fair Value Adjustment on Real Estate Assets

	Three months ended March 31		
(in thousands of Canadian dollars)	**2021**	2020	Change
Fair value adjustment on real estate assets	**$64,703**	($1,301,242)	$1,365,945

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 three months ended March 31, 2021 included fair value adjustments within the Retail segment. These adjustments were a result of H&R's regular quarterly IFRS fair value process and reflect improving conditions in the retail landscape resulting from stronger than expected rent collections and the overall economy expected to be reopen as part of the accelerating COVID-19 vaccine rollout. The reopening of the economy is expected to have a strong impact on H&R's enclosed shopping centres as customers begin to feel comfortable returning to in-person shopping.

The three months ended March 31, 2020 included fair value adjustments that were more significant than previous periods. These adjustments were a result of H&R's regular quarterly IFRS fair value process, and included the impact of COVID-19 reflecting two trends: (i) an acceleration of challenging conditions in the retail landscape impacting the valuation assumptions of retail properties; and (ii) energy sector volatility that may have impacted the credit quality of many companies operating in this industry and the related impacts on office property market fundamentals in markets with significant energy industry employment.

Refer to page 6 of this MD&A for a breakdown of the fair value adjustment on real estate assets by operating segment.

Loss on Sale of Real Estate Assets

	Three months ended March 31		
(in thousands of Canadian dollars)	**2021**	2020	Change
Loss on sale of real estate assets	**($3,917)**	($1,901)	($2,016)

For a list of property dispositions, refer to page 13 of this MD&A.

The loss on sale of real estate assets for the three months ended March 31, 2021 of $3.9 million is primarily due to closing costs incurred as part of the sale of one U.S office property. The loss on sale of real estate assets for the three months ended March 31, 2020 of $1.9 million is primarily due to the sale of two U.S. residential properties.

Income Tax Recovery

(in thousands of Canadian dollars)	Three months ended March 31		
	2021	2020	Change
Income tax computed at the Canadian statutory rate of nil applicable to H&R for 2021 and 2020	**$ -**	$ -	$ -
Current U.S. income taxes	**(240)**	(228)	(12)
Deferred income tax recoveries applicable to U.S. Holdco	**3,934**	26,941	(23,007)
Income tax recovery in the determination of net income (loss)	**$3,694**	$26,713	($23,019)

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 H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco") and arose due to taxable temporary differences between the tax and accounting bases of assets and liabilities net of the benefit of unused tax credits and losses that are available to be carried forward to future tax years to the extent that it is probable that the unused tax credits and losses can be realized. Deferred income tax recoveries decreased by $23.0 million for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to fair value adjustments on real estate assets recognized during the three months ended March 31, 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 March 31, 2021, H&R had net deferred tax liabilities of $342.1 million (December 31, 2020 - $348.8 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 March 31	
(in thousands of Canadian dollars except per Unit amounts)	**2021**	2020
Net income (loss) per the REIT's Financial Statements	**$159,539**	($1,019,821)
Realty taxes in accordance with IFRIC 21	**31,647**	32,326
FFO adjustments from equity accounted investments (page 28)	**1,711**	3,925
Exchangeable unit distributions	**2,567**	5,284
Fair value adjustments on financial instruments and real estate assets	**(77,829)**	1,155,739
Fair value adjustment to unit-based compensation	**402**	(17,733)
Loss on sale of real estate assets	**3,917**	1,901
Deferred income taxes applicable to U.S. Holdco	**(3,934)**	(26,941)
Incremental leasing costs	**1,670**	1,459
FFO	**$119,690**	$136,139
Straight-lining of contractual rent	**(11,205)**	(1,891)
Rent amortization of tenant inducements	**1,139**	495
Capital expenditures	**(6,429)**	(8,522)
Leasing expenses and tenant inducements	**(3,502)**	(4,708)
Incremental leasing costs	**(1,670)**	(1,459)
AFFO adjustments from equity accounted investments (page 28)	**(915)**	63
AFFO	**$97,108**	$120,117
Weighted average number of Units (in thousands of basic Units adjusted for conversion of exchangeable Units)[1]	**301,758**	301,595
Diluted weighted average number of Units (in thousands of Units) for the calculation of FFO and AFFO[1][2]	**302,154**	301,949
FFO per basic Unit (adjusted for conversion of exchangeable units)	**$0.397**	$0.451
FFO per diluted Unit	**$0.396**	$0.451
AFFO per basic Unit (adjusted for conversion of exchangeable units)	**$0.322**	$0.398
AFFO per diluted Unit	**$0.321**	$0.398
Distributions per Unit	**$0.173**	$0.345
Payout ratio as a % of FFO	**43.5%**	76.5%
Payout ratio as a % of AFFO	**53.6%**	86.7%

(1) For the three months ended March 31, 2021 and 2020, included in the weighted average and diluted weighted average number of Units are exchangeable units of 14,883,065.

(2) For the three months ended March 31, 2021 and 2020, included in the determination of diluted FFO and AFFO with respect to H&R's Unit Option Plan and Incentive Unit Plan are 396,354 Units and 353,709 Units, respectively.

FFO for the three months ended March 31, 2021 compared to the respective 2020 period decreased by $16.4 million primarily due to a decrease in property operating income as a result of: (i) factors relating to the COVID-19 pandemic impacting the Retail segment further described on page 24 of this MD&A and (ii) Jackson Park in New York being negatively impacted by COVID-19 due to higher vacancy and lower than average lease renewals.

AFFO for the three months ended March 31, 2021 compared to the respective 2020 period decreased by $23.0 million primarily due to the decrease in FFO noted above as well as Hess receiving a seven-month free rent period (commencing December 2020) as part of the Hess Lease Amendment. The Hess Lease Amendment resulted in an increase in straight-lining of contractual rent. The decrease in AFFO was partially offset by less cash spent on capital and tenant expenditures.

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

	Three months ended March 31		
(in thousands of Canadian dollars)	**2021**	2020	Change
Lease termination fees	**$228**	$200	$28
Bad debt expense	**(1,106)**	(334)	(772)
Costs incurred for abandoned transactions as a result of COVID-19	**-**	(1,660)	1,660
	($878)	($1,794)	$916

Excluding the above items, FFO would have been $120.6 million for the three months ended March 31, 2021 (Q1 2020 - $137.9 million) and $0.40 per basic Unit (Q1 2020 - $0.46 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 March 31		
(in thousands of Canadian dollars)	**2021**	2020	Change
Office:			
Capital expenditures	**$3,393**	$5,279	($1,886)
Leasing expenditures and tenant inducements	**1,668**	2,462	(794)
Retail:			
Capital expenditures	**1,680**	1,748	(68)
Leasing expenditures and tenant inducements	**1,763**	1,732	31
Industrial:			
Capital expenditures	**149**	281	(132)
Leasing expenditures and tenant inducements	**312**	767	(455)
Residential:			
Capital expenditures	**1,785**	1,524	261
Leasing expenditures and tenant inducements	**-**	-	-
Total at the REIT's proportionate share	**10,750**	13,793	(3,043)
Less: equity accounted investments	**(819)**	(563)	(256)
Total per the REIT's Financial Statements[1]	**$9,931**	$13,230	($3,299)

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

The largest capital expenditure from the Office segment for the three months ended March 31, 2021 was washroom upgrades at an Ottawa, ON office property totalling $1.5 million. The largest capital expenditures from the Office segment for the three months ended March 31, 2020 included: (i) a generator upgrade at a Toronto office property totalling $1.6 million; and (ii) a full roof replacement at a Calgary office property totalling $1.4 million.

The largest capital expenditure from the Retail segment for the three months ended March 31, 2021 was a food court renovation at Guelph, ON retail property totalling $1.1 million ($0.9 million spent in Q1 2020).

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 March 31, 2021**	Year ended December 31, 2020	Year ended December 31, 2019
Cash provided by operations	**$91,434**	$426,928	$418,039
Net income (loss)	**159,539**	(624,559)	340,289
Distributions	**49,486**	263,572	394,181
Excess cash provided by operations over total distributions	**41,948**	163,356	23,858
Excess (shortfall) of net income (loss) over total distributions	**110,053**	(888,131)	(53,892)

Cash provided by operations exceeded total distributions for all periods noted above. Distributions exceeded net income (loss) for the years ended December 31, 2020 and 2019 primarily due to non-cash items. Non-cash items relating to the fair value adjustments on financial instruments, real estate assets and unit-based compensation, gain (loss) on sale of real estate assets and deferred income taxes (recoveries) are deducted from or added to net income (loss) and have no impact on cash available to pay current distributions. The net loss of $624.6 million for the year ended December 31, 2020 was primarily due to fair value adjustments which are further discussed on page 6 of this MD&A.

Major Cash Flow Components

	Three months ended March 31		
(in thousands of Canadian dollars)	**2021**	2020	Change
Cash and cash equivalents, beginning of period	**$62,859**	$48,640	$14,219
Cash flows from operations	**91,434**	60,676	30,758
Cash flows from investing	**150,762**	153,184	(2,422)
Cash flows used for financing	**(250,535)**	(209,742)	(40,793)
Cash and cash equivalents, end of period	**$54,520**	$52,758	$1,762

Cash flows from operations increased by $30.8 million for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to an increase in non-cash working capital and a decrease in interest paid. This was partially offset by a decrease in property operating income.

Cash flows from investing decreased by $2.4 million for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to properties under development acquired in Q1 2021 and lower net repayments of mortgages receivable in Q1 2021 compared to Q1 2020. This was partially offset by the following: (i) an increase in net proceeds on the disposition of real estate assets; (ii) less cash spent on additions to properties under development as well as the acquisition of investment properties; and (iii) cash held in escrow from the sale of one U.S. residential property in Q1 2020.

Cash flows used for financing decreased by $40.8 million for the three months ended March 31, 2021 compared to the respective 2020 period, primarily due to the repayment of debt offset by lower distributions on Units.

Capital Resources

As at March 31, 2021, H&R had cash on hand of $54.5 million and amounts available under its lines of credit totalling $1.4 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 $39.5 million available under its secured construction facilities held through equity accounted investments as at March 31, 2021. As at March 31, 2021, 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 March 31, 2021, H&R had 100 unencumbered properties (including properties under development), with a fair value of approximately $3.9 billion. Also, due to H&R's 25-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 March 31, 2021, H&R had 40 properties valued at approximately $1.4 billion which are encumbered with mortgages totalling $211.9 million. In this pool of assets, the average loan to value is 15.2%, the minimum loan to value is 0.5% and the maximum loan

to value is 29.4%. The weighted average remaining term to maturity of this pool of mortgages is 1.6 years. Of these 40 properties, six properties have mortgages maturing in 2021 totalling $105.0 million with a fair value of $666.3 million.

The following is a summary of material contractual obligations including payments due as at March 31, 2021 for the next five years and thereafter:

	Payments Due by Period				
Contractual Obligations[1] (in thousands of Canadian dollars)	2021[2]	2022-2023	2024-2025	2026 and thereafter	Total
Mortgages payable	$893,213	$1,094,487	$241,566	$1,390,278	$3,619,544
Senior debentures	-	575,000	750,000	550,000	1,875,000
Unsecured term loans	-	-	250,000	250,000	500,000
Lines of credit[3]	176,720	1,936	-	-	178,656
Lease liability[4]	835	2,275	2,366	175,521	180,997
Total contractual obligations	$1,070,768	$1,673,698	$1,243,932	$2,365,799	$6,354,197

(1) The amounts in the above table are the principal amounts due under the contractual agreements.
(2) For the balance of the year.
(3) As at March 31, 2021, H&R had $176.7 million outstanding on its lines of credit which were due in 2021. Of this amount, $51.5 million is outstanding on the H&R and CrestPSP revolving secured line of credit, which in April 2021 was extended from April 30, 2021 to April 30, 2022.
(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 March 31, 2021. This is a rating achieved by only five Canadian REITs (including H&R) as at March 31, 2021. 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 March 31, 2021, H&R had cash on hand of $54.5 million, $1.4 billion available under its unused lines of credit and an unencumbered property pool of approximately $3.9 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
2021[1]	11	$818,155	3.9%	$2,125,268	38%
2022	40	543,462	3.9%	1,459,595	37%
2023	10	391,614	3.9%	593,523	66%
2024	5	42,826	3.2%	218,289	20%
2025	10	104,231	3.9%	230,181	45%
	76	$1,900,288	3.9%	$4,626,856	41%

[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 March 31, 2021, H&R has outstanding letters of credit totalling $31.6 million (December 31, 2020 - $31.8 million), including $12.4 million (December 31, 2020 - $12.5 million) which has been pledged as security for certain mortgages payable. The letters of credit may be secured by certain investment properties.

H&R has co-owners and partners in various projects. As a general rule, H&R does not provide guarantees or indemnities for these co-owners and partners pursuant to property acquisitions because should such guarantees be provided, recourse would be available against H&R in the event of a default of the co-owners and partners. In such case, H&R would have a claim against the underlying real estate investment. However, in certain circumstances, subject to compliance with H&R's Declaration of Trust and the determination by management that the fair value of the co-owners' or partners' investment is greater than the mortgages payable for which H&R has provided guarantees, such guarantees will be provided. As at March 31, 2021, such guarantees amounted to $306.9 million expiring between 2021 and 2027 (December 31, 2020 - $290.1 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.

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 March 31, 2021. This strategy manages risks related to foreign exchange rates on transactions that will occur in the future.

During 2020 and 2021, H&R had the following swaps outstanding:

			Fair value asset (liability)*		Net gain (loss) on derivative instruments	
			March 31	December 31	Three months ended March 31	
(in thousands of Canadian dollars)		**Maturity**	**2021**	2020	**2021**	2020
Debenture interest rate swap	(1)	February 13, 2020	**-**	$ -	**$ -**	$404
Term loan interest rate swap	(2)	March 17, 2021	**-**	(469)	**469**	(2,310)
Term loan interest rate swap	(3)	May 7, 2030	**(2,271)**	(20,797)	**18,526**	(15,727)
Term loan interest rate swap	(4)	January 6, 2026	**(12,954)**	(21,023)	**8,069**	(14,903)
Incentive units swap	(5), (6)	2022	**938**	730	**208**	-
Incentive units swap	(5)	2022	**914**	701	**213**	-
Incentive units swap	(5)	2023	**2,335**	1,763	**572**	-
			($11,038)	($39,095)	**$28,057**	($32,536)

(1) To fix the interest rate at 3.67% per annum for the Series P senior debentures which settled upon maturity.
(2) To fix the interest rate at 2.56% per annum for the U.S. $130.0 million term loan, which settled in March 2021.
(3) In November 2020, the interest rate swap was amended to fix the interest rate at 3.17% per annum for the $250.0 million term loan and the maturity date was extended to May 7, 2030. Previously, the interest rate was fixed at 3.33% per annum with a maturity date of March 7, 2026.
(4) To fix the interest rate at 3.91% per annum for the $250.0 million term loan.
(5) To fix the payout on incentive units that mature in the respective years.
(6) In February 2021, the incentive units swap with a maturity date in 2021 was extended to 2022.

* 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)	**Q1 2021**	Q4 2020	Q3 2020	Q2 2020
Rentals from investment properties	**$266,467**	$277,509	$271,612	$269,882
Net income (loss) from equity accounted investments	**7,191**	(44,697)	9,195	7,639
Net income	**159,539**	111,644	247,849	35,769
Total comprehensive income (loss)	**133,626**	(34,663)	177,239	(70,177)

	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Rentals from investment properties	$279,677	$282,221	$281,571	$286,972
Net income (loss) from equity accounted investments	10,877	36,958	(18,414)	3,556
Net income (loss)	(1,019,821)	163,402	69,301	109,583
Total comprehensive income (loss)	(783,620)	119,484	89,458	67,813

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

Rentals from investment properties decreased by $11.0 million in Q1 2021 compared to Q4 2020 primarily due to a decrease in rent from the Retail segment due to factors relating to the COVID-19 pandemic, including: (i) tenant closures mainly affecting enclosed shopping centres; (ii) temporary lease amendments reducing rental rates in order to retain tenants who have faced challenging conditions; and (iii) lower percentage rent and specialty leasing earned due to government mandated closures primarily affecting enclosed shopping centres. Rentals from investment properties further decreased due to the weakening of the U.S. dollar.

Net income (loss) from equity accounted investments increased by $51.9 million in Q1 2021 compared to Q4 2020 primarily due to a fair value decrease to Jackson Park in Q4 2020 as a result of higher vacancy and lower than average lease renewals as a result of COVID-19.

Net income increased by $47.9 million in Q1 2021 compared to Q4 2020 primarily due to fair value adjustments on real estate assets and an increase in net income (loss) from equity accounted investments discussed above. This was partially offset by a decrease in property operating income primarily due to the non-cash impact of IFRIC 21 as well as the decrease in rentals from investment properties noted above.

Total comprehensive income (loss) increased by $168.3 million in Q1 2021 compared to Q4 2020 primarily due to the increase in net income noted above and a foreign currency loss from investment in foreign operations of $25.9 million in Q1 2021 compared to a loss of $146.3 million in Q4 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 March 31, 2021 in the tables below:

Number of Properties[1]		**Canada**				
	Ontario	**Alberta**	**Other**	**Subtotal**	**United States**	**Total**
Office	20	4	4	28	4	32
Retail[2]	36	17	14	67	255	322
Industrial	36	19	28	83	3	86
Residential[3]	-	-	-	-	24	24
Total	92	40	46	178	286	464

Square Feet (in thousands)[1]		**Canada**				
	Ontario	**Alberta**	**Other**	**Subtotal**	**United States**	**Total**
Office	5,375	2,607	893	8,875	1,693	10,568
Retail[2]	3,458	3,946	2,720	10,124	3,529	13,653
Industrial	4,858	2,030	1,648	8,536	700	9,236
Residential[3]	-	-	-	-	7,460	7,460
Total	13,691	8,583	5,261	27,535	13,382	40,917

(1) H&R has 16 properties under development which are not included in the tables above.
(2) Retail, which includes ECHO's equity accounted investment, has five properties under development which are not included in the tables above.
(3) The residential properties contain 8,141 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
2021[1]	123,202	23.80	514,316	23.99	132,725	6.07	770,243	20.87
2022	277,855	22.95	921,569	22.64	1,165,704	6.84	2,365,128	14.89
2023	113,321	32.03	581,377	32.45	374,539	6.49	1,069,237	23.31
2024	587,895	11.99	782,565	27.27	744,573	7.67	2,115,033	16.12
2025	422,077	20.56	553,632	31.17	683,639	6.09	1,659,348	18.14
	1,524,350	18.81	3,353,459	27.04	3,101,180	6.80	7,978,989	17.60
Total % of each segment	17.2%		33.1%		36.3%		29.0%	

(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
2021[2]	-	-	136,742	17.20	-	-	136,742	17.20
2022	563	57.48	222,075	24.23	-	-	222,638	24.31
2023	85,725	5.86	191,486	25.16	412,585	3.00	689,796	9.51
2024	-	-	167,183	15.88	123,090	3.75	290,273	10.74
2025	92,694	15.23	200,639	20.03	-	-	293,333	18.51
	178,982	10.88	918,125	20.94	535,675	3.17	1,632,782	14.01
Total % of each segment	10.6%		26.0%		76.5%		27.6%	

(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]	12.2%	1	1,997	17.1	BBB- Negative
2.	Bell Canada	8.7%	23	2,536	13.4	BBB+ Stable
3.	Hess Corporation	5.7%	1	845	11.9	BBB- Stable
4.	New York City Department of Health	4.1%	1	660	9.6	A+ Negative
5.	Giant Eagle, Inc.	3.4%	196	1,627	10.4	Not Rated
6.	Canadian Tire Corporation[4]	3.0%	19	2,682	5.9	BBB Stable
7.	Corus Entertainment Inc.	1.9%	1	472	12.0	BB Stable
8.	TC Energy Corporation	1.9%	1	466	10.1	BBB+ Stable
9.	Lowe's Companies, Inc.[5]	1.7%	13	1,346	13.0	BBB+ Stable
10.	Telus Communications	1.2%	17	356	4.9	BBB+ Negative
11.	Toronto-Dominion Bank	1.1%	7	286	6.3	AA- Stable
12.	The TJX Companies Inc.[6]	1.1%	18	681	5.7	A Stable
13.	Public Works and Government Services, Canada	1.1%	5	321	4.2	AAA Stable
14.	Loblaw Companies Limited[7]	1.0%	19	273	8.1	BBB Stable
15.	Royal Bank of Canada	1.0%	5	247	4.2	AA- Stable
16.	Empire Company Limited[8]	0.9%	14	492	10.0	BBB- Stable
17.	Shell Oil Products	0.8%	12	152	2.5	A+ Stable
18.	Walmart Inc.[9]	0.8%	9	751	7.2	AA Stable
19.	Metro Inc.	0.7%	12	420	5.5	BBB Stable
20.	Canadian Imperial Bank of Commerce	0.7%	9	191	4.1	A+ Stable
	Total	**53.0%**	**383**	**16,801**	**11.4**	

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

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

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

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

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

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

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 annual MD&A for the year ended December 31, 2020 and in the "Risk Factors" section of H&R's 2020 Annual Information Form, each of which were filed with the securities regulatory authorities in Canada and are available at www.sedar.com.

Risks Associated with COVID-19

The ongoing COVID-19 pandemic and the restrictive measures taken in response by various governments have resulted in additional risks and uncertainties to the REIT's business, operations and financial performance as discussed throughout the MD&A.

The duration and impact of 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 the ongoing COVID-19 pandemic on the REIT's operational and financial performance will depend numerous factors, including the duration, spread and intensity of the pandemic, the actions by governments and others taken to contain the pandemic or mitigate its impact, changes in the preferences of tenants and prospective tenants, and the direct and indirect economic effects of the pandemic and containment measures, 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 have been or could potentially continue to 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 effects 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 March 31, 2021 and May 6, 2021, there were 286,892,258 Units issued and outstanding and 9,500,000 special voting units outstanding.

As at March 31, 2021, 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,10,400,029 options to purchase Units have been granted and are outstanding and 7,323,081 options have not yet been granted. As at May 6, 2021, there were 10,400,029 options to purchase Units outstanding and fully vested.

As at March 31, 2021, 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 1,231,349 incentive units which remain outstanding, 213,474 have been settled for Units and 3,555,177 incentive units remain available for granting. As at May 6, 2021, there were 1,240,883 incentive units outstanding.

As at March 31, 2021 there were 14,883,065 exchangeable units outstanding of which 9,500,000 exchangeable units are accompanied by special voting units. As at May 6, 2021, 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 April 2021, the REIT secured a one-year extension on the unsecured line of credit from a syndicate of five Canadian bank for $300.0 million. The maturity date was extended to April 17, 2022.

(b) In April 2021, the REIT secured a one-year extension on the H&R and CrestPSP revolving secured line of credit for $62.5 million. The maturity date was extended to April 30, 2022.

(c) Subsequent to March 31, 2021, H&R renewed $237.5 million of mortgages which were previously maturing in 2021 for a one-year term.

(d) Subsequent to March 31, 2021, H&R completed a 10-year lease with an industrial tenant to occupy 105,133 square feet at 34 Speirs Giffen Ave., Caledon, ON, a single-tenant property currently under development. Occupancy is expected to commence in Q2 2022. This will be the second property constructed at H&R's industrial business park in Caledon which consists of approximately 144 acres.

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)
Emily Watson, President, Property Management (Lantower Residential)

Auditors: KPMG LLP

Legal Counsel: Blake, Cassels & Graydon LLP

Taxability of Distributions:
18.4% of 2020 distributions will be designated as taxable capital gains. For taxable Canadian unitholders, 18.4% (2019 - 22.3%) of the distributions will not be subject to current income taxes.

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

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Dufferin Mall, Toronto

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www.HR-REIT.com